CHAPTER - III:

NATURE OF LOCAL SELF GOVERNMENT

This chapter contains nature of local self government in which the working and functioning is presented along with Rules and Regulations.

Local Finance beginning from the expenditure side, for the active factor in local budgeting is the decision to spend. It is the principle of public bodies that their revenues are made to adapt themselves to outlay needs. Before discussing the trend and significance of local expenditure, it will be in the fitness of things to understand first of all the meaning of local expenditure.

Local expenditure is that part of public expenditure which is incurred by the local authorities expenditure. The public expenditure covers the expenditure incurred by the State Government as well as the Central Government. The principle of local expenditure is the same as that of public expenditure. In fact, there is one and only one principle of public expenditure which applies to all its branches (Local, State and Central Governments) and that is the principle of maximum benefit.

Dr. R. N. Bhargava refers to this principle as “the principle of maximum, aggregate benefit or in other words the principle of equi-marginal social benefit.”

44
Prof. Pigou states this principle in the following words: "Resources should be so distributed between different uses that the marginal return of satisfaction is the same for all of them."²

3.2 Distinction between Central or State & Local Expenditures:

On the basis of functions, a broad distinction may be drawn between the Central or State and Local Expenditure. The State is primarily concerned with the maintenance of peace and administration of justice in the country while local bodies undertake such activities as have direct bearing on social and living conditions of the local inhabitants.

Dr. Dalton has mentioned the Central and State Expenditure as follows:

Turning to the actual expenditure of modern public authorities, the following is an obvious catalogue:

1. The maintenance and equipment of armed forces including police, (a) in peace, (b) in war;

2. The administration of justice;

3. The maintenance of ceremonial head of the State, including in monarchial countries, the Royal family and court and of diplomatic representative abroad;
4. The maintenance of the machinery of civil government, including ministers, legislators and civil servants;

5. Public debt charges, including interest, repayment of principal and cost of management;

6. Expenditure, directly devoted to “fostering industry and commerce” such as maintenance of consuls abroad and the performance of industrial and commercial functions, such as the supply of currency, conduct of postal services, transport services, etc.

7. Social expenditure on health, education, old age, pensions, poor relief, provisions for unemployment, etc.\(^3\)

Local bodies are primarily concerned with those activities which have the most direct bearing on social and living conditions, the most effective means of bringing about social reforms. Local expenditures are incurred on those activities which promote the welfare of the inhabitants of a particular locality.

The main peculiarity of the local expenditure which distinguishes it from Central and State expenditure is that the local expenditure is essentially an outlay for local benefit. Irrespective of the fact that the local expenditure of every kind is service to the community. If a productive enterprise is undertaken by the local body, and if it is conducted so as to cheapen the cost of service obtainable therefrom to the citizen or so as to improve the lot of the workers engaged in the
production of these services and commodities by a practical recognition of standard minimum wages to all local employees, no matter of what rank, its productivity need not be measured by financial position exhibited in terms of money in the balance sheet.

Moreover, it can be mentioned here that the Central and State expenditures are controlled by the Parliament or by the Legislative Assemblies, as the case may be, while the local expenditure are controlled by the State Government. Dr. Gyan Chand says, “The local bodies by themselves cannot assume responsibility for launching this enterprise and will need guidance and assistance from the central authority, and since their resources are and will be limited, it is a matter of primary importance that they should be charged only with those functions for the administration of which their co-operation is necessary, and a fair proportion of the expenditure on which they may be able to meet from their own resources.”

The last but not the least, point that distinguishes local expenditure from Central or State expenditure is the predominance of the principle of ‘Quid-Pro-Quo’ which is the hallmark of local expenditure. Most of the local services are in the nature of ameliorating people’s lot and are directly associated with promotion of the welfare of the people. Therefore, the motto of profit is subordinate to service. Sometimes the cost of a particular development scheme is defrayed out of ‘Special Assessment’, which is levied on the principle of ‘Quid-Pro-Quo’. This levy of Special Assessment is
found very common in American local bodies and there it has played an important part in the local development. In India, though this levy is permissible in most of the provincial municipal Acts, yet its collection is not dared.

Thus, both in theory and in practice the local expenditure is subject to the application of principles and canons of Public Expenditure to a considerable extent.

3.3 Trend and Significance of Local Expenditure:

The advent of Indian Independence in 1947, and the adoption of the Constitution on 26th January 1950 ushered in a new era in the history of Local Self Government. Local bodies now have to shoulder a greater responsibility than they used to do at the time of the British suzerainty. Consequently the expenditure side of the local bodies in India has been swelling ever since independence and the negative budgetary gap is widening steadily. This trend is found in equally both the sectors - Urban and Rural', Local Self Government in India. The main reason of this unprecedented increase in the local expenditure is the increasing sphere of local activities. They have been charged with those activities which are most essential for the very existence of human being. Adolph Wagner, a German Economist, who presented his famous 'Law of the increase of State activities' equally and truly applies to Indian local bodies. He states, "Comprehensive Comparisons, of different countries and different times show that among progressive people, with which alone we are concerned, an increase regularly takes place in the activity of both the central and local governments. This increase
is both extensive and intensive; the central and local
governments, constantly undertake new functions, while they
perform both old and new functions more efficiently and
completely. In this way the economic needs of the people to an
increasing extent and in a more satisfactory fashion are satisfied
by the central and local governments."

The present increase in the local expenditure in
India vindicates the truth of Wagner’s statement. It will be
appropriate to know the reasons for the pressure on the local
purse, and they are not far to seek.

(1) Growth of Population. – On 15th August 1947, when we cut
the shackles of sal very and rejoiced over our independence with
spontaneous enthusiasm, we screamed over the unfortunate
partition of the country into India and Pakistan. It caused a wide
spread movement of population from one part of the country to
the other. This resulted in an unprecedented growth of
population during last decade, tempo of rapid industrialization,
centralization of industries and substantial migrations of people
seeking better opportunities in the industrial towns put an
immense pressure local budgets to arrange for the amenities of
life to the increased population of the towns. The evil effect of
this growth has been the coming up of the slums and their
growth is like a dark patch in the white sheet of India. A vast
amount of money has to be spent every year to reclaim these
unhealthy localities and to provide shelter in bit cities to
shelterless people who sleep on pavements quen to the sky
during freezing nights.
(2) Inflation. – Secondly, the inflationary state of Indian economy since the beginning of the Second Plan, caused escalating of operational cost of local administration. Right consciousness of the public, pledge for a Welfare State and Local Elections, compelled the local bodies to increase the sphere of their activities and that pushed up their budgets resulting in increased negative budgetary gaps. Skyrocketing prices of essentialities of life and of essential civic services and labour have caused to swell the local expenditures. A large part of local expenditures in on the salaries and wages of employees. Various social security measures of the Government such as Minimum Wages Act, sickness and maternity benefits, regulation of working hours and paid holidays further added fuel to the fire. In India there is a large number of female employees in the conservancy staff of the local bodies and they are given maternity benefits with full pay, which forms a considerable amount in the local budgets. In short, the administrative expenditure of local authorities has naturally increased and there is a growing tendency with the increases of size of the towns and population. In addition, the rising prices of the essentialities of life is a springboard of inflation which increases the size of local budgets.

(3) Welfare Activities. – Thirdly, there is a steady rise in the sphere of local bodies, especially since 1955, when we pledged for

a welfare state, which in general means economic security to all. In the past, local authorities used to be concerned mainly with a
few elementary functions water supply, sanitation and public health, maintenance of roads and supply of power. Now our notion of local self government has changed and we are concerned with all the vital activities having far reaching effects on the entire life and welfare of the citizens, such as proper housing, sanitation and public health – preventive and curative both, education (primary), slum clearance, public conveniences and recreations, etc. thus, the local bodies are now looked upon as the primary means not only for political but also for economic developments.

The expenditures on local works and public health are the important items of local budgets and they tremendously have gone up from Rs. 25 crores in 1955-56 to Rs. 80 crores in 1961-62.

(4) Interest.- Fourthly, resort to borrowings has become inevitable to meet the increased expenditures. The interest and repayment of loans are prominently figured in the local budgets now-a-days. The survey of financial of local authorities conducted by the Reserve Bank shows that there is a sharp rise in the debt charges of local authorities, which absorbs as much as Rs. 8.1 crores (1961-62) as against Rs. 7.1 crores in 1960-61. At the end of March 1961 the outstanding debts of the municipalities and municipal corporations stood at Rs. 132.2 crores.

(5) Decentralization of Administration. – Fifthly, at last the concept of Punchyati Raj in the rural sector of local self government has been accepted as a means of administrative
decentralization. On experimental basis it is being practiced in eleven Indian States and the results are very encouraging. This change in rural sector has increased the expenditures of the Panchayats.

(6) Finally, the practice of democracy in local bodies has also increased their financial burden. Mrs. Hicks has put it in the following words:

"The councils need expensive offices and array of paid workers, while the councillors although unpaid, have expensive ideas of their rights in respect of allowances. The cost of new organization falls wholly on local budgets." 6

The financial consequence of all these changes as discussed above is that there is a persistent growth of local outlays in recent years, but an increase in revenue receipts has not been in keeping with it, consequently the efficiency of local bodies is adversely affected.

3.4 Classification of Local Expenditure :

Regarding the local expenditure in general, it may be noted that Wagner's Law of Constant Increase in the Expenditure, as discussed in the previous chapter, appears to be the most prominent characteristic of the local expenditure in recent years. Broadly speaking, the local expenditure can be divided into two classes, viz. ordinary and extraordinary expenditure. It has to be further distinguished as productive and unproductive expenditure.
Ordinary and Extraordinary Expenditure. In simple terms an ordinary expenditure of a local body is one which is likely to recur every year, though not under the same guise or name. Ordinary expenditures are also known as current or recurring expenditure. This expenditure is met out of regular revenue receipts. Ordinary or recurring expenditure produces no permanent asset. Under this head we can include the expenditures incurred on running the administration of the local body i.e. on salaries, and wages, on cleaning, lighting and protecting public health (purchases of materials) on haulage, and on charges for interest and repayment of loans incurred for capital purposes. The expenditures for running trading services though are of recurring nature yet are charged out of revenue receipts of the particular trading service.

Extraordinary or non-recurring expenditures on the other hand are those which may justly be financed out of capital receipts instead of the ordinary revenue funds, and will either not recur ordinarily or which by the magnitude of the amount involved as well as the likelihood of the services to be rendered from those projects bring their own justification to any disconcerning critic for an exceptional treatment. Generally, these expenditures are known as capital expenditure. They are by nature incurred on some object of lasting value. Capital expenditures are generally defrayed out of borrowed money. The underlying principle in such expenditure is that their burden should be transferred on those who are expected to derive the benefit out of these expenditures. Mrs. Hicks has mentioned the
following eleven headings which fall under capital outlay. “The contents of the breakdown are as follows:

1. Roads, streets and complementary services such as street lighting, fire brigades, and housing for road gangs,

2. Housing and town planning (but not staff housing),

3. Conservancy, sanitation, sewerage and drainage,

4. Educational establishments of all kinds, including schools, teachers' training Colleges, teachers' houses, educational office buildings, teachers' houses, educational office buildings and schools, teachers' training colleges, teachers' houses, educational office buildings, and school furniture,

5. Medical installations and their furnishings, including clinics, dispensaries, maternities and general hospitals,

6. Markets, slaughter houses, lorry parks, eating houses, and sanitations in connection with such installations,

7. Water supply and installations connected therewith such as reservoirs, pumps, and pipe lines,

8. Administrative establishments, including council offices and furniture, staff houses, police barracks, court houses, and prisons,
vehicles and general equipment including workshops and depots,

amenities such as parks, stadium, community centres, libraries, hotels, and beer halls,

natural resources developments (excluding water) including agricultural and veterinary investment, afforestation, bush clearing, and resettlement, and apparatus for pest control."

Mrs. Hicks very elaborately enumerated the heads of capital outlay, and most of them prominently figure in our local budgets of both sectors.

Productive and Unproductive Expenditure - Local expenditure further may be distinguished as productive and unproductive. By productive expenditure is meant an outlay which will yield enough in the normal receipts obtainable in exchange for the services rendered by such outlay. Some of the items mentioned by Mrs. Hicks can very often yield surplus. An unproductive expenditure is of both recurring and non-recurring nature. Non-productive, Non-recurring expenditures are generally met out of loans and grants-in-aid of the government.

3.5 Heads of Expenditure:

The main heads of the expenditure of the urban local bodies are general administration and revenue collection, public health including sanitation, medical relief and water supply, etc.
public works public safety, and the miscellaneous expenditure, i.e. the expenditure on various items of welfare activities. A detailed study of the above heads of expenditure is attempted below.

General Administration and Revenue Collection.- Local Self Government in the urban sector, as already pointed out, as administered in India, is of foreign import. It is a fusion of both the Indian and British system of local government. The administration of urban local bodies in India more or less is similar to that of local bodies in Britain. There is a dual system of administration. Policy making powers are vested in the council, elected by the inhabitants on the basis of adult franchise and the chairman (known by various names in the different parts of the country, i.e. President, Mayor, etc.) who is the head of the council and exercises those powers. On the other hand, the executive powers for the policies laid down by the council are vested in the executive officer, who is in-charge of the executive. The questions of policy and principles are decided by the whole council, which appoints committees to carry out the detailed administration of its various services. The more important committees of the larger local authorities (Municipal Corporations) divide their work among sub-committees which stand to the parent committee in more or less the same relation as do the main committees to the whole council. The execution of the policy decided upon by the council and the committee, rest with salaried officers. These paid officers are of immense importance, for without an efficient administration the council can accomplish little. Different methods are followed in
recruiting these salaried officers in the urban local bodies of the country. In some municipalities the principal officers, like Executive Officer, Accounts Officer, Engineer, Health Officer, Auditor, etc., are appointed by the State governments, either with the consultation of the council or directly. In some states these officers are directly appointed by the council either from the open market or by promotion without consultation of the State Government. In Madhya Pradesh, the principal officers of Municipal Corporations are recruited by the State Government through Madhya Pradesh Public Service Commission. Other ministerial and technical subordinate staff throughout the country is mostly recruited by the local body itself.

The main feature of Indian municipalities, like that of the British local bodies, which distinguish, their administration from that of other countries, is the combination of the responsibility for the determination of policy and for the supervision of its execution in one body – the council itself. The council has direct responsibility for execution of policy thus, the council is not only answerable for its policy but also for its execution. The council and the paid officials collectively form the administration. The committee system, which is the hallmark of the urban local administration, is another peculiarity of our local administration. The committee system is used very commonly in large units of local government in India. Committees are of particular value, for they serve to bring them into closer contact with the management of the services they provide than would otherwise be possible. Generally speaking, the committees are free from legal restrictions and they are constituted according to
individual requirements and not according to a pattern laid down.

Officials. – The local officers can usually be divided into three categories:

(1) Heads of the departments, who attend the meetings in an advisory capacity and who are responsible for their respective departments. The chief officer is responsible for all of them;

(2) a variety of subordinate officers employed in a professional, technical, or clerical capacity; and

(3) a large number of conservancy staff and manual workers, who are employed either permanently or temporarily to do the actual physical work, e.g. roads construction and maintenance, building, refuse collection and disposal, and cleanings, etc.

Most of the duties of the heads of the departments, such as health officer, finance officer, engineer, accounts officer, octroi officer, and others are of a managerial and administrative kind. These officers are responsible for carrying out the policy either laid down by the committees of their departments, coming under their scope or by the council. Mostly, the functions and duties and powers of various officers are laid down in rules and byelaws. Formal contacts between the committee members and the heads of the departments are maintained by regular meetings, at which the officers submit (in small committees the
chief officer) their periodical reports. Urgent matters which may arise between meetings are generally dealt with in formal discussions between the head of the department and the chairman of the committee.

Revenue Collections. – Though, the chief of the executive is primarily responsible for revenue collection, yet some special staff is given in his subordination for this specific purpose. The department in-charge of revenue collection is generally known as Revenue Department, headed by Revenue Officer designated differently in municipalities of India, such as Finance Officer, Revenue Officer, etc. He is assisted by a large number of ministerial staff and assistant officers depending on the size of revenue to be collected. Generally, accounts are maintained by a separate section known as Accounts Department, headed by the Accounts Officer. Thus, the revenue is collected with the co-ordination of the various heads of revenue yielding departments and the accounts of all incomes and expenditures are maintained by the accounts departments. Different methods are followed to collect the local revenues in Indian municipalities, which will be discussed at the appropriate place.

There has been a steady rise in the expenditure on this head. According to the survey of the Reserve Bank of India (Sample Survey) about the finances of municipalities, the expenditure on this item varies from 10% of 20% of the total expenditure. In some of the states it goes up to 50%. This is first
due to the increased amount of work and secondly due to the decreasing efficiency of the staff.

Short Review. - The degree of excellence in the functioning of the administrative machine of the municipalities, is not a matter of mathematical calculation; it can only be judged from impression and experience. Looking to the administrative conditions of municipalities in India, irrespective of their size and status, an impartial observer would generally arrive at the conclusion that the municipal administration at present has run down. The work allotted to it has increased; expenditure as already seen, is on the ascending scale. The efficiency of the administrative machinery has been gravely impaired. There is considerable public dissatisfaction; often the main cause of dissatisfaction is the delay in the disposal of business. There is a lack of sincere and honest service. Mr. A. D. Gorwala observes, "The ordinary citizen gets very tired of having to wait for an answer and he is apt to ascribe any undue delay to a desire to obtain illicit gain on the part of the officials."® The delay in disposal is very often due to the absence of proper supervision, lack of interest in official business, lack of explanation of the reasons for refusing to take certain action and finally, appointment of the subordinate staff on the basis of recommendation of influential persons. The dissatisfaction of the public is naturally growing day by day. Dr. Hugh Tinker remarks, "The traditional attitude to the public office, high or petty, permitted the holder to make a profit from the discharge of his public duties. A governor or a judge, a peon or a constable, to each or all, members of the public who required
their services or desired their favours would give presents upon
the scale laid down by customs. An upright official would
demand or accept no more than was customary and would
discharge his duties for common good; a less honourable man
would deliberately exploit his powers to extract the maximum
bribe and may even action has favour to the highest bidder.” 9
One may disagree with the learned Doctor. Such conditions in
the country did exist under the British rule yet it cannot be
denied that our administrative machinery is beyond reproach.

If the causes for the prevalence of the above state of
affairs in the municipal administration are looked into, the main
causes responsible for this are manifold. The defective system of
selection of the personnel; practice of favouritism in
appointments, meager salary and low grades; lack of trained and
skilled personnel to undertake specialized works; undue
interference of the councillors with the day-to-day work of the
local body; are the very common causes for the inefficiency of the
local administration in India. Thus, in short, it can be summed
up that the public apathy, exaggerated regard for economy or
careless extravagance, an inability to think in terms of large scale
expenditure, lack of foresight, prejudice, unregulated
recruitment of officials, mediocre quality of the staff, inefficiency,
delay, all are drawbacks which are allowed to in municipal
administration in the urban sector. It will be a Herculean task to
cleanse the Augean stables. But any hesitation in undertaking the
job will mean the failure of the democracy.
3.6 Public Health:

Protection of public health is one of the primary and fundamental functions of the urban local bodies. This head of expenditure, therefore, occupies a prominent place in the local budget. The public health activities of municipalities in India may be divided into two sections: provision for medical relief and administration of preventive medicines. The maintenance of public health requires the fulfillment of certain fundamental conditions, which include the provision of an environment conducive to healthy living, adequate nutrition, the availability of facilities for the protection of health, both preventive and curative, to all members of the urban community, irrespective of their ability to pay for it. At the same time the active co-operation of the people is also to be sought in the maintenance of their own health. For this purpose, provision has to be made for maintaining hospitals and dispensaries for the direct treatment of individual. This facility is extended by the Indian municipalities according to their size and means at their disposal. In most of the states this curative aspect of the public health is looked after by the State government, since it is neither possible nor feasible for local bodies to provide the latest apparatus and employ the most qualified medical experts. It may be dangerous to rely on the local bodies for this aspect of public health yet municipalities in India are extending this facility to the public according to their capacity, side by side, with the government organizations. But the Indian municipalities seem to pay much more attention to the second aspect of the public health administration. The duties and powers of local
bodies in this respect as incorporated in the relevant Act may be summarized as under:

(a) The construction, maintenance and cleaning of drains and drainage works and of public latrines, urinals and similar conveniences;

(b) Scavenging and the removal and disposal of excrements and other filthy matter and of all ashes, refuse and rubbish;

(c) The reclamation of unhealthy localities, the removal of noxious vegetation and generally the abatement of nuisance;

(d) The regulation of places for the disposal of the dead and provision of new places for the said purpose;

(e) Registration of births and deaths;

(f) Public vaccination;

(g) Prevention and suppressing the spread of dangerous diseases;

(h) Establishing and maintaining public hospitals and dispensaries and carrying out other measures necessary for medical relief.

Thus, the work in this sphere is distinguishable into several activities, e.g. conservancy, sanitation, and medical relief. Anti-epidemic work, prophylactic public health (such as vaccination and anti-malaria work and vital statistics), supply of
pure drinking water, and finally with the planning of the physical growth of the town and improvement of housing condition.

It will be quite appropriate to note the point of distinctions and significance of the above-mentioned public health activities of the municipalities. The first point of distinction between the preventive and the curative services of the local bodies is that in the former the benefits are allocable to individuals, while in the later the personal services which provide individual allocable benefits are possible. In other words, the curative services are personal (where personal treatment is given to the sick person) where individual attention is possible, while the preventive services are rendered to eliminate the occurrence of diseases. The preventive services are the earlier steps and the curative services come into play when the citizens have fallen victims to some ailment or the other. It is thus, evident that public health services must be the most important item of the municipal expenditure and it occupies the foremost place in the budgets of the urban local bodies of the country. According to the survey of local finances, conducted by the Reserve Bank of India, there was much sharper rise in total disbursement on this head than on other services. The actual expenditures of all Indian municipalities cannot be ascertained since it was a sample survey of municipalities. But the trend which is evident from this survey indicates that the percentage of expenditure on public health varies from 15% to 30% of the total expenditure.
An improvement of the general sanitation in the inhabited areas of the cities and towns to provide salubrious atmosphere of living is a matter of urgent importance from the point of view of controlling a large part of the preventable ill health. In the matters of public health, more than any other matter, prevention is much better than cure, and for prevention, the education of public opinion is far more important than the provision of medical institutions. So far as the sanitation, conservancy and the drainage conditions of Indian cities are concerned, they are highly deplorable and disappointing. Most of the municipalities spend a major portion of their revenue on this head, since the sanitation and conservancy on this head, since the sanitation and conservancy are the most expensive services. A large number of workers (sweeper) to execute these operations are employed to clean the roads and drains. A few cities in India have constructed underground drainage system and have sewer system yet to organize and maintain a proper health service is not an easy affair. Chawls of Bombay, Bastees of Calcutta, and Zhugees of Delhi are like the pimples on the beautiful faces of these metropolitan cities. What to speak of small municipalities, when Municipal Corporations like Delhi and Bombay, with their gigantic resources, have failed to provide sufficient drinking water to the inhabitants and there is always a crisis in the supply of drinking water especially during the summer. More than 50% of Indian cities have not got sufficient supply of pure drinking water, though much is being done by National Water Commission in this respect. The collection and disposal of excreta in most of the municipal towns is at present of low standard. In small towns and some of big municipalities the city
refuse is collected by the sweepers and loaded into the carts which empty them in sub-depots and main depot. In Municipal Corporations it is collected by tractor trailers and by trucks, but even these methods are defective. Different methods are adopted for removing night soil in India. In those municipalities which have no sewer system, it is removed by buffalo drawn carts, baskets, tanks, buckets, and with the help of ashes, etc. in some of the municipalities, it is still removed in baskets carried on heads.

On the whole, it can be said that general sanitation of the majority of municipalities in India is highly deplorable and needs immediate attention if the dream of a Welfare State is to be turned into reality.

3.7 Problem of Slums:

Slums in Indian cities are a stigma on the good name of India. They are like the dark patches in the white sheet of India. Slums are the localities inhabited by mostly low-income people. They have a total absence of modern minimum civic amenities like water supply, public and private lavatories and urinals, bath-rooms, recreation grounds, parks, school and medical facilities. Absence of drains and roads is very common. These slums are the outcome of industrialization which made a large number of people migrate from villages to these industrial cities for earning their livelihood. These places are breeding grounds for various social vices and economic ills and are problem localities for government for maintaining law and order. The acute housing shortage in the cities gives the impetus to a
set of unscrupulous land-sharks. In Bombay alone there are over two thousand tenements and various plots in Majaswadi and Jogeshwari house over thirty thousand tenants. Such localities are not uncommon in other industrial towns of India.

Though most of our cities have lived with their plague spots for long, never were slums such a menace to law and order and public health as they are now. In Calcutta, bastees have been recognized as the hotbeds of anti-social elements and vices. The slums of Kanpur have the highest T.B. incidence in the whole country. Nearly 3 lakhs of people live in woeful slum conditions in about 6 thousand ahatas (blind alleys) in this densely populated industrial metropolis of Uttar Pradesh.

In certain localities, congestion had increased to such an extent that people do not have even sitting room in the overcrowded tenements. In Bombay, the slums are alleged to be the centre of illicit distillation and gangsterism. Slums also house thousands of known and unknown cases of the dreadful disease – leprosy. People live there in sub-human conditions, amidst filth and squalour. The inhabitants spread dirt and disease all round.

It is said that slums are as much a product of poverty as they are of urbanization and industrialization. Poverty cannot be vanquished in a day; it will take many decades to raise the standard of living of the entire population of the country. Urbanization is an offshoot of modern economy and industrialization is our only hope for the future. Yet accepting these conditions as inevitable, ceaseless efforts will have to be
made to check the growth of slums to make our cities clean and healthy.

The authorities concerned have so far failed to adopt effective measures to check this evil. The Second Five-Year Plan had provided Rs. 20 crores for slum clearance and the Third Five-Year Plan provides Rs. 29 crores. These funds have proved inadequate. According to the Sen Report, Calcutta city alone needs over Rs. 100 crores to rid itself of its bustees. A comparatively small city like Ahmedabad, where the problem has already been tackled to a certain extent needs Rs. 20 crores to clear its slums. The Kanpur Corporation has spent about Rs. 3.25 crores to develop land and about 4716 quarters have been constructed for slums dwellers in different localities. The Delhi and Bombay Corporations have done a considerable work in this direction to get rid of their chawls and zhugees.

It is not correct to say that all the slums are a product of poverty. Quite often they are a creation of unscrupulous and anti-social elements. City 'tough' forcibly occupy vacant plots of land, build miserable hovels on them and rent them out to earn a regular income. The example of such a locality is 'Jogeshwari' in Bombay. Some of Bombay's slum-dwelling families are known to earn up to Rs. 500 a month. They stay in slums either for their convenient location or for the cheapness of the place. The other main category of slum-dwellers comprises of industrial workers employed in big and small firms. They stick to slums because industries are in cities, and slums grow with industries.
One-fourth of Calcutta's seeming millions live in slums. Bombay's slum population is about a million. In Kanpur, slums house 60% of the city's inhabitants.

The problem of slum clearance is not of a small magnitude. It must not be allowed to grow any further or it will not be possible to tackle it even in the next fifty years. Government must insist upon moving industries to sub-urban and rural areas where workers can be provided with suitable accommodation. All major industries should make provision for accommodation for their workers. Local bodies should be called upon to make a plan to do away with the existing slums in phases and adequate grants be given from state Government budget. Moreover, the government must come down on city 'toughs' and tenants with a heavy hand.

Slums in America. – It is not only India which is facing the problem of slums but an affluent country like America also has the problem of slums in its metropolitan city of New York. A graphic account of what it is to be a slum resident in New York was quoted by the Illustrated Weekly of India from a newspaper extract recently published from the Diary of a Puerto-Ricon Woman. The extract is as mentioned hereunder:

These troubles of New York's more affluent cave dwellers are nothing, however, compared to the tribulations of the millions who live in 200,000 and more sub-standard buildings, including a hard core of some 40,000 tenements built before the passage of New York state's first housing law in 1901. Since the demand for low cost housing is greater than the
supply, these slums continue to exist as fostering sores contribution to the spread of crime and violence. Their occupants, by and large, are Negroes and Puerto-Ricons, caught in a dwell of poverty that seems too deep to escape from.

It is difficult to convey the total wretchedness on life of the 900,000 to million people, in the slums of New York, for the image of America is one of affluence, the upkeep of buildings in slums in usually neglected. The landlord or the agent making an appearance only to collect rents. They have crumbling walls, ceilings with gaping holes or falling plaster, heating and plumbing facilities that do not function, passage ways that are littered with garbage, staircase landings and empty flats that serve hideways for dope addicts, and numberless rats and lock roackers. Recently a slum-dweller reported seeing a rat as big as a cat. The rat menace is indeed so bad that a group of slum-dwellers recently organized a campaign to send rubber rats to the mayor of New York to dramatize their plight.

According to the Diary of a Puerto-Ricon Woman 'living' the way of life in this slum house is miserable. The Spanish speaking mother of four children wrote in halting English, "I don't wish nobody to live the way I live. Inside a house in this condition. No steam, no hot water, ceiling falling on you, running water from the ceiling, to go to a bathroom you have to use an umbrella, rats everywhere. I suggest that landlords having human being living this way instead of sending to jails they (city official) must make them live at least a month
in the same conditions, so they know the way they pile up money in the bank.

It is really hard to believe that this happens herein New York and the richest city in the world.”

This is a sample what can be found in the richest city of the world such conditions exist everywhere in every civilized, economically developed and undeveloped countries equally with the difference of degrees only.

3.8 Public Works:

Public Works Department of the Indian Municipalities occupies a unique place with regard to their functions and budget. It is the third important item of local budget. This department aims at making cities more convenient, healthy, efficient and beautiful. The foremost task of this department is the laying of streets and footpaths and their upkeep. Roads are the means of over land communication. Economic development of any nation depends on better roads for free and safe movement of the population from one locality to another depends on better roads and lanes and byelanes. Of late, road administration in Indian cities has assumed increasing importance because of the ever increasing number of heavy vehicular traffic at urban centres. The weight and speed of motor vehicles have naturally resulted in the demand for better and stronger roads and also their proper maintenance.
Public Works Department of Indian Municipalities is mainly concerned with construction and maintenance of roads, bridges (in the city), culverts, public markets, slaughter houses, public places, establishment and maintenance of lanes and byelanes, drains, etc., and with any other work assigned to this department concerning with the physical beautification and developments. Indian municipalities are responsible for the construction and maintenance of roads within the territorial jurisdiction of the local body. No portion of the cost is borne by the state government excepting some general and specific grants-in-aid given to them. The rapid growth in the size of population of Indian cities in causing physical growth of them by putting much pressure on local budgets for various conveniences like laying down roads, construction of drains, parks, playgrounds, fixing of electric polls, arrangement for adequate pure drinking water, arrangements for underground sewerage, etc. almost in all the municipalities of India there has been a considerable enhancement of expenditure on public works. According to the survey of the Reserve Bank of India, the expenditure on new construction of roads and buildings went up from Rs.3.69 crores in 1956-57 to Rs.16.35 crores in 1961-62. It shows that there was fivefold increase in the expenditures on this item (only sample survey). As per the survey report, the city, corporations were responsible for nearly 70% of the increase in the expenditure under public works and for almost the entire increase under public health and convenience. This rise underscores the growing importance of development functions which the city corporations have undertaken consequent on industrialization and urbanization. If we look to the figure
mentioned in the survey report, the total expenditures on public works record an impressive rise of Rs.22.1 crores to Rs.36.8 crores, its share in total disbursements soaring from 9.4% in 1959-60 to 17.6% in 1951-62.

General conditions. – Owing to the inadequate finance at their disposal, the municipalities in India have failed to think in terms of development and city planning. The roads in most of the small municipalities are not well surfaced. Proper town planning is the crux of the planning of the cities. In most of the States the governments have established trusts for improving the city lands and reclaiming unhealthy localities. But the progress in this direction is moving at a Snail’s pace. It is also to be noted with great concern that due to the paucity of funds most of the local bodies are unable to employ experienced and skilled staff to supervise the local public works and to check the illegal constructions in the towns and advise the public for proper and hygienic construction of the houses. Illegal constructions in the Delhi Municipal Corporation have created an unpleasant situation before the authorities. Various futile attempts were made to demolish them and several times police help was sought. Small municipalities sometimes face difficulties in getting road-rollers from the state/s; P.W. Departments and failure to get them results in the works being abandoned. Similarly, most of the towns are ill-planned, having no proper markets, slaughter houses, and public places for recreation, etc.
Therefore, in a Welfare State of India, it is necessary that there should be proper planning of the cities with modern civic amenities. Along with the physical growth of the town due to the pressure of population, the local bodies should come forward with other essential amenities to the newly developed localities. If proper care is taken, the growing cities need not be so revolting to the eyesight. Beautification of the city, if not an essential service, is definitely a sign of the standard of culture and civilization of the inhabitants.

3.9 Education:

Elementary education is now recognized to be once of the essential functions of the urban local bodies in some of the States in India. Article 45 of the Constitution says, “The State shall endeavour to provide within a period of ten years from the commencement of the constitution for free and compulsory education for all children until they complete the age of fourteen years.” This responsibility is as a matter affect to be borne by the State Governments. But in some States this is being shared by the local bodies partly. Such States are Madras, Maharashtra, West Bengal, Uttar Pradesh, Bihar, Delhi, Orissa, the Punjab and the Mahakaushal region of Madhya Pradesh. These States extend some financial aid to the municipalities as a share of the cost on this item.

The educational structure varies from State to State. In Madras, Kerala, Andhra Pradesh, West Bengal, Bihar, the majority of the primary schools are functioning under private management, while in other States local bodies largely maintain
their own schools. In Maharashtra, three-quarters of the primary schools are 'board' schools which are staffed by teachers from a State cadre. The local government schools are subject to degrees of control by the education department of the State Government. In Madras 76.5% of the schools are private institutions aided by local bodies. The Delhi Corporation is responsible for education up to the secondary stage. In Bombay, the primary education is subject to the administration and control under separate Act, known as 'Primary Education Act'.

According to Mrs. Hicks, the Education Service in India has always been highly centralized. "To-day by far the large part of the educational outlay is made by the States; although progressive towns such as Bombay and Poona are, in addition, spending 14-15% of their budgets on this service. Elsewere 10% of a municipal budget would be above the average. Indeed may towns seem to be content to have the State provide almost the whole service." 11

The Bombay Municipal Corporation not only devotes its fund to primary education, but also extends some facilities of technical education. One medical college is being run by the Corporation. Another method of participating in the education expansion activity is by giving grants-in-aid to the schools. Various private primary and secondary schools in Delhi, Calcutta, Madras, etc., are running with the financial assistance of local bodies. Local bodies in other countries are responsible for the maintenance of secondary schools and in some cases even of the colleges and universities. In India the situation is
quite different. With the meager resources at the disposal of the local bodies, and clothed with a large number of elementary and essential services, how can they be expected to discharge the expensive and vital service to the people? Neither is it desirable to rely on them.

For qualitative and quantitative increase in the output of primary schools, and if this is to be assigned to the local bodies, they are to be given adequate financial aid for this purpose. But the main thing which is to be seen is that the teachers responsible for imparting primary education are properly paid for qualitative output of the schools. Therefore, it will be in the interest of the nation, if the local bodies are relieved of this responsibility of national importance for which they are not quite prepared and equipped under the present state of financial strait.

3.10 Public Safety:

The next prominent item of local expenditure of Indian Municipalities is the public safety. The protective services of the Indian municipalities include the fire service, street lighting, protecting public against stray and dangerous dogs and other animals and finally destruction of rats, etc. it is an obligatory duty of every municipality for lighting public streets, places and buildings, extinguishing fires and protecting life and property. Fire protection includes two different enterprises, namely, fire prevention and fire fighting. The street lighting has twofold benefits, first the beautification of the city, and secondly, saving the public from accidents by roving darkness and
guarding their property. Most of the streets now-a-days are lit by electricity, though in small municipalities the kerosene lamps are used. Most of the municipalities in India before the establishment of State Electricity Boards used to own their Power Houses. In some of the municipal corporations they are even now subject to the management and control of the local body concerned. Since the establishment of Electricity Boards in every State, production of power is in the hands of the Board and the local body has nothing to do with power house. Formerly, cases were not uncommon when the production and distribution of electricity was in private hands who used to charge an exorbitant rates for it. Now, the electricity is supplied to the towns by the board and poles are fixed by the local body itself. The rate is charged from the local accounts. In view of the increased tempo of the industrialization, cheap power was a great problem, but it is now possible to be had.

The extinguishing of fire is an obligatory duty of the municipalities and for this purpose a fire station, well equipped with modern apparatus and fire fighting vehicles, is maintained by them. The fire station is notified of fires either by telephone or by the street alarm system. when someone breaks the flash of one of these alarms and pulls the handle, a tape in the fire station records where the alarm is and a local gong sounds in the fire station. The appliances are kept ready all the time for immediate action – within a minute of alarm sounding the fire engine is tearing along the streets towards the fire with its bell ringing loudly to clear the way, and the firemen inside putting on their gear.
Putting out fires is only a part of the fire services duty. Even more important is the prevention of fires. This is done in big corporations by giving advice on fire prevention and by regularly inspecting the localities to see that possible causes of fires are removed and that all means of prevention are available. In most of the Indian cities such trades as are always in danger of catching fire, and thereby cause enormous loss of life and property, are generally removed out of the city area as a preventive measure. These trades are regulated by the local bodies by issuing licences to such trades.

Fire service is a liability to the local bodies and its eats away a substantial portion of their revenue. It is frequently being argued that this function be taken over by the State Government. A suggestion is also being discussed to municipalize the fire insurance and Municipal Fire Insurance Corporation of India be established. Since the work of fire extinguishing is done by the local bodies why the fruits of fire insurance are raped by the private companies, without sharing any portion of the cost of this service?

The third danger to the public life, which comes under the head of public safety, is the free movement of stray dogs and other animals. Municipalities in India are entrusted with the task to take the necessary steps to promote safety and for making necessary arrangements for the confinement and destruction of stray dogs. In various Indian municipalities the stray cattle are impounded and sent to the cattle pond, where
they are handed over to the owners only after imposing a fine and penalty.

According to the survey of the Reserve Bank of India the total expenditure of local bodies in India on public safety has gone up from Rs. 2.60 crores in 1956-57 to Rs. 4.42 crores in 1961-62. The increase in the disbursement during these years was mainly on street lighting.

3.11 Miscellaneous Expenditures:

After discussing, in the preceding pages, the main items of local expenditures in the urban sector of Local Self Government in some detail, attention must be turned to various other items of local expenditure, which, though important, yet varies in amount and magnitude from municipality to municipality. Under this head we shall discuss in shore various items of expenditures which find place in the local budgets. The main items which are common, are these: interest charges, repayment of loans, sinking fund, depreciation, maintenance and repairs of plant and machinery, public reception (municipal corporations and big municipalities) contribution to the provident funds, litigation, telephone charges, economic aids, conveyance, religious and social ceremonies, and other various recurring and non-recurring expenditures such as insurance charges, purchase of furniture, etc., charged under this head. A provision for unforeseen eventualities is also made and charged under this head known as contingency expenditure. This head of miscellaneous items forms a major part of the total expenditure which varies from 40% to 50% of it. Some of the items are of
recurring and permanent nature and are charged under separate head in the municipal corporations and big municipalities. These items are: interest charges and repayment of loans. Loans have become regular feature of the present local government since they have to make up the deficiency in their revenue receipts cause by steadily increasing capital and other expenditures. The magnitude of such expenditures has been dealt with elsewhere. Similarly, public receptions accorded to the various foreign dignitaries and V.I.P.s visiting this country have become the most common features of the metropolitan towns and municipalities in India. Since independence, India has become a frequent visiting place of various diplomatic and cultural missions. Whenever these missions and foreign dignitaries and V.I.P.s visit any important industrial and metropolitan town, they are accorded civic reception by the municipality concerned on behalf of the civil population of town entailing a huge amount every year. The civic receptions to the Indian V.I.P.s irrespective of the fact to what political party they belong, are not very uncommon. Some municipal Corporations like Delhi, Bombay, Calcutta, Agra, Madras and Bangalore, which are regular and daily visiting places of the foreign and Indian V.I.P.s and dignitaries make a regular provision in their budgets for public reception.

The threat of strike either by the employees of the municipality or by some private operator of essential service, always hovers over the head of the local body. Whenever such a threat materializes, it causes a great strain on the local budget and administration to meet such a situation whenever it may
arise. Purchase of furniture, though a capital item, but not of recurring nature is also included under the head ‘miscellaneous expenditure’. Any expenditure on any outbreak of epidemic is also met out of the miscellaneous head.

Contribution to the provident fund of the employees of the civic body, though a regular and recurring item of expenditure, is also charged under this head. But this depends on the system of budgeting and the extent of the amount charged. In big municipalities, which involve the expenditure of lakhs of rupees every year, it is separately charged under the head ‘provident fund’.

Thus, the miscellaneous expenditures are those, which are both recurring and non-recurring, small in amount and insignificant in nature. Such items, on which the expenditures are unforeseen, are charged under this head and are very often of a limited or insignificant amount.

3.12 Local Revenue:

Since Independence greater emphasis is being laid on rural development. While agriculture is receiving very kind of encouragement, the farmers are being trained to adopt secondary occupation. Every effort is being made to develop the cottage industries and new venues for employment are being provided. City and the employment facilities of industries lure the villagers far away from the even tenor of their life. Yet emphasis is being laid, and correctly too, in all our plans and schemes to improve the conditions in the villages and instill into
the villagers a new life and a brighter hope. It is realized that 82% of the population of the country lives in the villages. Three-fourth of them draw their resources from land. While the cities are capable of looking after themselves, the villagers dwell in a bleak world of ignorance and superstition. Rural India is and should be the starting point of a Welfare State. The farmers have for centuries been feeding the urban areas and getting no proper return for their labour and this exploitation should immediately cease. Efforts carefully planned and conscientiously carried, will make a revolution in the country side. The rural local bodies are to play a decisive role in this direction. Similarly, urban local bodies are concerned with primary health services and education in cities, sanitation, water supply, and other such important amenities which go to make living comfortable in urban areas. These are the major problems confronting the city governments in India. To tackle these problems effectively, local bodies require adequate resources. Therefore, there is an urgency. Of equitable distribution of resources according to the need of each sector of local government for balanced development of rural and urban areas so that we may win the fight which had already been launched against disease, illiteracy, and poverty under the successive Five-Year Plans. Thus, if local bodies are to play and significant part in economic and social development, they must have access to adequate finance.

3.13 General Characteristics of Local Revenue:

Local revenue is that which is derived from local enterprise, local service or the wealth of the local citizens located
within the limits of the local body. The main feature of State revenue which distinguishes local revenue from it is that the state, by its sovereign power, taxes the people personally, irrespective of their actual residence in the cases of direct taxation. It does not take into account that the actual wealth out of which a tax-payer pays his tax is within or without the jurisdiction of the taxing authority. It means the state taxes people in 'personal'. On the other hand a local body can not disregard the fact that wealth be located within the jurisdiction of local body and thus a major portion of its revenue is obtained out of such local wealth.

The second characteristic according to K. T. Shah and Bahadurji worth noticing in local bodies is that, the bulk of local revenue is derived from taxes on the property as distinguished from taxes on the persons of the citizens. Though the personal or direct taxes are not uncommon in the local bodies, yet it has always been easier for them to levy their taxes in respect of property, land and buildings, situated within the local limits and consequently free from evasion that their taxes be levied on the citizen personally. In case of personal taxes, the freedom of movement of assesses which is enjoyed as a fundamental right may help them to evade the tax burden. On the other hand, taxes on property are, it is thought, easier to approximate to the ability of tax paying entity than taxes on citizens personally could be, especially if the tax is apportioned to the yearly value of the property taxed.
Prof. William Black Odgers distinguished national taxes from local taxes and observes, "When we turn to taxation, however, we find a marked difference between national taxes and local rates. The Central Government taxes both real and personal property, while rate falls exclusively on land and rates are as a rule direct only."  

The third important characteristic of the local revenue is the levy of special assessment (which has mentioned in the fifth chapter) due to improvements on property made by the local body. This levy is a prominent feature of local body. This levy is a prominent feature of local revenues. Special assessment or betterment levy is imposed on benefited properties by local improvement in proportion to the benefits that result. It is often considered to indistinguishable generally from the ordinary tax receipt.

Fourthly, the local bodies are not sovereign bodies and are subordinate to the State or Central Government. Therefore, in local revenue, State or Central subvention (grant-in-aid) has a prominent place. These grants are given to the local bodies by the State Governments to discharge their obligatory duties or some specially assigned duties. In English system of local government, granting aid from the national exchequer has long been recognized. Grants-in-aid are given to the local bodies since they assist the Central or State Government of the country and carry out essential social services which can be controlled by elected local representatives more conveniently and easily.
Fifthly, according to Professor Taussig, as quoted by B. R. Misra, the essence of a tax, "as distinguished from other charges, is the absence of a direct 'quid'-pro-'quo' between the tax-payers and public authority." In local taxation, however, in some cases, it is possible to measure the benefit received and to correlate this with the amount of the tax paid. Some local taxes are specially levied to benefit the inhabitant of particular localities.

Sixthly, local revenue systems are characterized by a high degree of rigidity. Local bodies can only impose those taxes which are permitted to them under the acts after observing a number of formalities as prescribed by control from Central or State Government. Most of the taxes barring a few are rigid and not flexible.

Finally, according to Prof. Taylor, "An outstanding characteristic of the 'fiscal crisis' of local government is the lack of uniformity in its impact. Its dependence in some basic degree upon the rate at which demands upon particular local governments have increased; the localities whose population has shown rapid growth through immigration have been confronted with the most pressing problems."  

3.13 Importance Of Local Revenue:

Revenue is a necessity of the first order for any system of government. No administration can be carried on without it. Raising money is, in fact, the most important and at the same time the most difficult problem which the local
administration have to face. Adequate sources of revenue at the disposal of the local body enable it to fulfil its obligatory and discretionary functions. The financial weakness of the local bodies not only hinders the political development of the country, but also reacts adversely on the progress in other spheres of civic life. Therefore, local bodies should financially be strong. As a nation, India cannot come to its own unless they show, in the sphere assigned to them, the necessary vigour and efficiency in the discharge of their duties.

The work of socio-economic reconstruction and development of India, in which we are engaged, has amply increased the responsibilities of the Indian local bodies, especially the rural local bodies. It is a self-proved fact that social welfare cannot be separated from civic welfare. If social justice is to be done and economic progress is to be achieved, through the democratic processes of planning, public cooperation, rather active participation of the community, is to be promoted. To achieve this goal the institutional pattern of life will have to be built from below. The edifice of the Welfare State has to be built up brick to brick and for it the local bodies should be equipped with adequate revenue. The emerging of the Democratic Socialism in India, the republican spirit of public administration and the development planning undertaken to create a Welfare State are all expected to contribute towards the progress of Local Self Government in local affairs and to promote a fully decentralized democracy in India.
Like the national finance and unlike the private finance, the revenue of the local bodies has an important social aspect. The local bodies are generally authorized, in the acts under which they are constituted, to tax those articles of consumption the use of which may be considered to be injurious to the public health and morale. This yields twofold benefits: first, a substantial revenue to the local area. This may prove an effective measure for stamping out an unhealthy and immoral habit or activity. Thus, by rigorously controlling the supply, wholly or partially, by taxing deleterious things, if and when so decided, may exert a social influence, though of course in an indirect manner. Thus, it is an established fact that even the people who pay very little taxes, either directly or indirectly, very often receive a large return in the form of public services.

It is worth repeating here that by taxing the well-to-do class according to their taxable capacity, the local government collects its revenues and then it spends them on services beneficial to the community at large. The real income of the 'have nots' is thereby increased by provision for essential services.

**3.14 Classification of Local Revenue**:

Broadly speaking, there are three main categories into which the local revenue may be classified, viz.

(i) Fiscal receipts from various systems of local taxation, which, everywhere in the world is the most important source of local revenue,
(ii) Commercial receipts from local properties and local trading.

(iii) Subvention or grants from the government. The modern financial experts classify the local revenue into two main divisions, which cover the above three categories. Under this classification the local receipts consists of tax income and non-tax income. The above-mentioned three categories of the local receipts have been included in the modern classification the first has been included into the tax revenues and the last two (commercial receipts and state subventions) have been included in the non-tax revenues. A detailed study of the local sources of income has been done in the succeeding pages. Here, first of all we should know what is tax revenue what non-tax revenue and what actually do we actually mean by them.

Tax Revenue. - There is a great deal of confusion about the tax revenue of the local bodies. The term tax is vaguely understood. Let us know what is tax and then differentiate the local taxes from general taxes. Taxation is generally a method of raising money from a people for the maintenance of a state or Local Government. Goethe's definition of taxation was, "Taxes are such levies as are imposed by the ruling sovereign for the maintenance and protection of State, for the prevention of the distress and for furtherance of the common weal. They must be levied as equitably as possible." Another famous definition of tax is given by Dalton, "A tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service
rendered to the tax-payer in return and not imposed as a penalty for any legal offence." 15

Adam Smith, the father of the British Economy, says that every tax might be levied at a time or in the manner in which it is most likely to be convenient for the contributors to pay it.

If we take the literal meaning of the tax as defined by Dalton and Adam Smith, we find a number of paradoxes between the general taxes as defined by economists and the local taxes. There are several levies which are called taxes in local bodies but actually they are not pure taxes. It is an important ingredient of a tax that, as street above, the payer does not get any specific benefit in return for the amount of the tax he pays. In other words, the element of ‘quid-pro-quo’ is altogether absent in a pure tax. In a pure tax a payer does not know for what specific service a tax is being demanded. Moreover a pure tax is a compulsory levy on a tax-payer. If we examine some of the levies of the local government which are generally termed as taxes such as water tax, wheel tax, drainage tax, etc., we will find that these are actually not real taxes though they are so termed. On the other hand, they are levied for specific service rendered or supplied. For example, a local body supplies water and then collects its price. It extends facilities for the discharge of silage water and collects drainage tax, and cleans the latrines through its conservancy staff and levies latrine tax, and so on. These levies are not taxes at all in the general sense, since they do not come under the preview of the definition of a tax. They are levied for the specific service rendered either directly or indirectly for
takes shifting takes place. Indirect taxes are generally levied on the goods which are for the first instance paid by the seller and are shifted to the consumers either directly or indirectly. Therefore, indirect taxes are those taxes which are paid by the producer or importer and shifted on the consumers. In other words, the impact and incidence of the indirect taxes are on different persons, viz. the producer bears the impact of indirect taxes. J. S. Mills has also defined indirect taxes as “demand from one person in the expectation and intention that he shall indemnify himself at the expense of another.”

According to Bastable indirect taxes are “charges on the occasional and particular event”. Similarly, in view of Prof. De Marco, those incomes which has cape direct appraisal and are indirectly ascertained are the case of direct taxes.

Before we classify the taxes into direct and indirect, it is essential to see their incidence, which is effected not only by nature of taxes but also by various other circumstances.

According to Prof. Dalton, “Is it commonly assumed that a tax on a commodity is an indirect tax, since it is passed on, in whole or in part. But if, whether collected from buyers or sellers, it leaves the price unchanged, then it must be classed as a direct tax.”

### 3.16 Direct and Indirect Local Taxes:

The local taxes can also be classified on the similar basis as that of general taxes. Those taxes which cannot be
shifted and their impact and incidence are on the payer are known as direct taxes. On the other hand, the taxes which can be shifted to another person and the impact is on the payer and the incidence is shifted to another person, either directly or indirectly, are indirect taxes. The rate on lands and buildings is really speaking a tax and in India it is a direct tax. While in England, the property taxes are paid by the occupiers and are recovered from the landlord by the payer. Therefore, in India rate is a direct tax, while in England it is an indirect tax. Writing about the tax on buildings Prof. Dalton remarks, many complications. Not only the owner and the occupiers, but also the builder may bear part of the incidence. Further, the occupier of the building, if engaged in which would otherwise fall on him or to the purchasers of his products.”

Similarly wheel tax in Indian municipalities can be classified as both direct and indirect tax, where it is levied on private vehicles, which is not shiftable is a direct tax and when it is levied on public vehicles, it becomes an indirect tax. Terminal tax and octroi duties, imposed on imported commodities and levies on persons visiting the local place are always indirect taxes.

3.17 Canons of Local Taxation:

Experts on public finance, and taxation frequently refer to the requisite of a sound system of taxation. Besides, various famous canons of taxation given by Adam Smith, viz. Cannons of Equity, Certainty, Convenience, and Economy, there are a few more sound guiding principles added to these by
modern economists. The modern economists have added the
cannons of productivity, elasticity, diversity and simplicity. In
the field of local taxation, there are some more guiding principles
for a sound and justifiable local taxation.

In addition to the general cannons of taxation given by
Adam Smith and modern economists, following are other main
canons of local taxation:

(1) Stability. – According to Mrs. Hicks, “The first necessity
for a good local tax is, therefore, for one that will help
subordinate governments to keep their finance on an
‘Even Keel’, in other words, for a tax whose yield is
reasonably stable in good times and bad.”

(2) Localized base. - Local tax burden should not generally be
capable of being shifted from the people of one city to any
other people outside the city limits. The chief guiding
principle of local taxation should be that its entire burden
be fallen on the local people and property. Local bodies
should only tax those articles which are brought within its
jurisdiction for consumption and not for export to any
other city or country. The underlying idea behind this
principle is that only those persons be taxed who are the
beneficiaries of local services and not on others. It should
not impede the general trade of the country. For example,
octroi, or town duty should not be imposed on those goods
which are passing through local limits of local body.
Otherwise it would be unfair since the goods are not
consumed by the local citizens. If it is done so, it will defy the canon of localized base.

(3) Effectivity on local wealth. – The local tax must fall on that form of wealth which is essentially local like land and buildings. The tax-payers cannot evade the taxes of the local body. If this principle is followed then only local bodies can enjoy effective autonomy.

(4) Locally spendable. – A tax is always unwelcome. Therefore, to make a tax tolerable to the payers, it should only be imposed for spending it on those items which result in direct or indirect benefits to the local payers. Taxes should never be imposed for purposes other than these. It will also help to local body to enjoy its complete autonomy.

Thus, besides, the various canons of general taxation, the above-mentioned four guiding principles deserve also to be borne in mind by the local authorities, while levying taxes in the local jurisdiction.

3.18 Tax Revenues:

The study of the sources of the Indian municipalities can be made on the basis of general classification made in the preceding section, viz. tax revenue and non-tax revenue. The power of taxation of the municipality have been laid down in the respective acts under which they are constituted.
The tax revenue of the municipalities may be grouped under the following heads:

1. Tax on property.
2. Tax on trades.
3. Tax on persons.
4. Fees and fines.

The above-mentioned groups of taxes will be discussed on the basis of classification of direct and indirect tax.

3.19 Direct Taxes:

The direct taxes are relatively speaking more important in the system of local finance in India. These taxes are:

House tax and its auxiliaries, which collectively may be termed, the property taxes which fall under the following four classes:

a) Tax on buildings and lands.

b) Cess on lands, generally with reference to use for agricultural purposes.

c) Tax on unearned increment in connection with betterment scheme.

d) Tax on shops, a surcharge on stamp duty on transfers of property, etc.
e) Terminal tax on passengers and pilgrim tax.

f) Personal taxes which are levied under different names in the country.

g) Local income-tax, like the tax on profession and trades, Haisiyat and Company tax.

h) Other minor taxes, such as conservancy, lighting and fire tax (it not included in the property taxes), the bazaar tax, tax on servants and dogs, tax on boats, washerman tax, tax on vehicles and conveyance, etc.

3.20 Indirect Taxes :

It is generally taken for granted that indirect taxation is not a suitable source of revenue for the Indian municipalities, even though they occupy not an insignificant place in the Indian Local Finance. Some of the indirect local taxes are very important sources of local bodies. The most prominent indirect local taxes are: octroi duty, terminal taxes, entertainment tax, tolls, licence duties, etc. of which octroi duty and entertainment tax occupy a prominent place in the local revenues.

Thus, the direct and indirect taxes levied by Indian municipalities are property tax, professional tax, animal and vehicle tax, entertainment tax, water tax, lighting, latrines and drainage tax (if not included in property tax), octroi duty, tax on companies, tax on advertisement, terminal tax on goods and passengers, conservancy tax, educational tax (Madras, Delhi,
Himachal Pradesh, Tripura), surcharge on stamps duty, dog tax, toll tax, poll tax, betterment tax (U.P.Delhi), poundage fee and slaughter house fee (Andman and Nicobar Islands), local rate on land revenues (Delhi), tax on consumption and sale of electricity (Delhi), tax on (Boats, Delhi), wheel tax, Milch tax (New Delhi), weighing and measuring dues (Pondicherry), and various other local fees collected and fines imposed.

Some of the important and common local taxes (direct and indirect) which figure in local budgets in India (both direct and indirect) are discussed at some length in the following pages.

3.21 Octroi:

Octroi is the backbone of the urban local finance and the most important source of indirect taxation for Indian municipalities. It is levied in the states of Gujrat, Jammu and Kashmir, Madhya Pradesh, Maharastra, Orissa Punjab, Andaman and Nicobar Islands of India. Octroi has been defined in Chambers' Dictionary as "toll or tax levied at the gates of a city on articles brought in". Similarly, according to the Concise Oxford Dictionary it is "duty levied in some continental countries on goods entering town". Thus, it is a tax on the articles of local consumption which are brought into the local area from outside by road, or water or railways. The octroi duty is imposed on goods imported within the local limits when they enter the town. The objective of octroi is always to raise revenue and it has no protective purpose.
Historical Background. - Octroi is one of the oldest taxes of the country and least objection is raised by the public against it. Town and market dues, similar to the octroi duties, were in vogue under the regimes of ancient Hindu rulers of India, although they assessed and collected on a system different from one now in existence. These duties have been described by Manu, Megasthanese and Stratio, who refer to them in some details. The chungi levy of a handful grain was well established in the Muslim period. The Aine-i-Akbari, records that the levy of octroi duties was current during Mughal rule and its collection was in the hand of the city Kotwal. In the 18th Century, the transit of goods by road and river was subject to the inland duties and the East India Company enjoyed a valuable concession from the Mughal Rulers.

In the 19th Century, the history of octroi is that of a recurring contest between the Government of India and the Provincial Governments; the former constantly pressing for its abolition, and the latter for steadily extending its operations. Octroi was levied as a Central Tax from 1808. It was abolished after Trevelyan’s condemnatory report, from Bengal in 1835 and from Bombay in 1844. It was revised in 1860 and was extended as a local source of revenue to almost all the States in the country.

The Government of U.P. appointed a committee in 1908 to examine the working of octroi in the province. The committee condemned octroi as an oppression and on abuse and its abolition was strongly recommended. It proposed the
introduction of Terminal Tax. The U.P. Govt. accepted the recommendations of abolishing the octroi and materialized it. But soon the income of the municipalities tremendously went down and thus terminal tax could not prove a good substitute for octroi. In 1916, the abolition of octroi was tried in Bombay and due to unsuccessful results most of the municipalities returned to octroi by 1937.

After Independence, the Taxation Enquiry Commission of 1953-54 observed, “Octroi as a form of taxation is unsatisfactory and should be eliminated from the tax system gradually,” The Central Council of Local Self Government recommended that octroi should be eliminated wherever possible and should be replaced by the terminal tax. But it is not possible to replace octroi even in the distant future.

Demerits of Octroi Duty. – Various Commissions appointed by the Government of India during the British regime and after Independence recommended the elimination of octroi, and various steps were taken in this direction but due to one reason or the other it could not be implemented. The Local Finance Enquiry Committee (1950) and Taxation Enquiry Commission also recommended its abolition. The main arguments against the levy of octroi are as follows:

1. Octroi creates hindrances in the way of free flow of trade and commerce and enables the local bodies to impede the economic development of the country by following the policy dictated exclusively or mainly by local interest and local considerations.
2. The cost of collection is heavy, and therefore the tax involves a burden which, apart from its inherent disadvantages, is a very strong argument against its imposition.

3. The system and administration leads itself to practices which are vexatious, corrupt and demoralizing, and make the system obnoxious more so because of the conditions under which it has to be administered and because of its other features.

4. Besides demoralizing the trade and commerce, it also creates a lot of trouble and harassment to the importers, which compel them to use corrupt means to get rid of it. It is especially so when the exporters get their refunds.

5. It is fundamentally wrong to tax the commodities second time, octroi is an unnecessary burden on the poor section of the society and hence it is better to substitute it by sales-tax. Moreover, octroi schedules are framed without any knowledge of trade conditions or appraisal of their far reaching effects on the structure of economic life.

The above-mentioned points compelled the Local Finance Enquiry Committee, 1950, and the Taxation Enquiry Commission to recommend for the elimination of octroi gradually and to substitute it by the terminal tax. The same view was held by the terminal tax. The same view was held by the Central Council for Local Self Government and it also recommended its abolition wherever and whenever it was
possible. The government of Madhya Pradesh (Urban) Local Self Government Committee, headed by Shri. Manohar Singh Mehta also observed, "We feel that it will be very difficult, if not impossible to replace octroi even in distant future. The only course, therefore, for the present is to be that the drawbacks of the octroi are eliminated, so as to ensure fair collection with the importer being less harassed." 21

Octroi Administration. - Octroi is the main-stay of revenue of the municipalities in India and it occupies the foremost place in their total revenue. Octroi is the most productive tax and it fully satisfies the 'Principle of Productivity'. But its productivity entirely depends on how it is administered and collected. The process of the octroi grow with the prosperity of the town. Octroi duty is levied on goods and animals brought within the jurisdiction of the local body either for consumption purposes or for sale. The procedure of its levy is generally laid down in the Municipal Acts under which the municipality is constituted and where the taxing powers of it are defined.

Assessment of Octroi. - For the purpose of assessment of the octroi duty various goods are divided into two categories, viz. one on which the duty can be levied according to the weight (Specific Octroi); and the other on which it can be levied on the cost of the goods (Advalorem Octroi).

Specific Octroi. - It is levied on the items which are listed permanently in the octroi schedule of the local body. This is a fixed amount per physical unit of the product, without regard to the value of the unit. Under this method of assessment
no regard is paid to the value of the imported goods, while on the other hand a flat rate of duty is charged on the imported goods. The advantage of the specified assessment is that its assessment is easier and more convenient, and also is easy of administration. There is also least possibility of the under and over valuation of the goods for the goods for the sake of octroi duty. Moreover, specific tax falls more heavily upon the cheaper goods imported.

Advalorem Octroi. – The term ‘Advalorem’ is a latin phrase which means ‘according to the value’. So Advalorem refers to ‘According to the value. So Advalorem refers to ‘According to the Valuation’ in the assessment of octroi duty. Advalorem duties as in octroi or terminal tax are always estimated at a certain percent on the valuation of the property. According to this method, the octroi duty is fixed on the percentage of the purchasing price of the product, at whatsoever level it is collected. Generally, the Advalorem method of octroi assessment is preferred to the ‘Specific’ method. This method is more equitable, since the octroi on goods is collected according to the value, i.e. more tax on valuable goods and less on the less valuable goods. Therefore, it satisfies the canon of justice more. This method fetches potential revenue from the more expensive and valuable goods. The only danger under this method is correct valuation of the imported goods. Different methods are applied to ascertain the value of the goods. For example, relying on the bills or cash memos furnished by the importer, personal statement of the importer about the value or price paid for the goods or ascertaining the cost estimated by the employee of the
local body. If the employee joins hand with the importer, there is always danger of under valuation of the goods and false declaration is likely to be submitted and accepted by the official in-charge of the out-post. Valuation of the property is a skilled and a technical job, and it requires expert knowledge which most of the local bodies cannot afford. It is, therefore, always advisable not to risk the revenue of the local authority by adopting this method of valuation.

Octroi Collection. - The common method of the collection of the octroi duty followed is to entrust the responsibility to the person in-charge of an out-post, established on all roads leading to the town and at every railway and bus station. The out-post is usually under the charge of a clerk, commonly known as Nakedar, who is appraiser, assessor and collector of octroi. He is assisted in his work by a peon, who has to see that no consignment goes past the barrier without the cognizance of Nakedar.

The Nakedar assesses the value of the goods and collects the duty accordingly. The importer fills up the declaration form and submits it to the Nakedar, who after being satisfied collects the octroi duty from the importers.

It is generally complained against the octroi administration that it is inefficient and corrupt. It is said that such state of affairs is prevalent throughout the country. The corruption among the Nakedars and the peons causes considerable loss of revenue to the municipalities. The subordinate staff of the out-post has wide powers which are
often misused. It is this threat of these enquiries more than the enquiries themselves which are used for making unlawful demands. The importer is forced to earn the sweet will of the Nakedar by hook of by crook. Dr. Tinker has remarked, “Most traders paid a douceur to the Octroi Moharrir, whereupon they understand the amount of goods they were importing, and their declaration are accepted without demur, the loss in potential revenue to the municipality, might easily be as large as 30 percent to 50 percent of that collected.” 22 The above remarks of Dr. Hugh Tinker seem to be correct. The octroi has failed to satisfy the principle of economy and productivity. Similarly, various arguments have been put forth against octroi by Dalal. According to him, ‘the system of octroi provides constant opportunities for fraud, it causes delay and oppression owing to the necessity of entrusting of large discretionary powers to a subordinate agency, its collection is costly and does cause hardship to the traders in spite of the system of refunds in the case of exports.” 23

3.22 Terminal Tax:

The other important source of the tax revenue of Indian Municipalities is the terminal tax. There is a lot of similarity between the octroi duty and a terminal tax so far as its levy on goods is concerned. Terminal tax is levied on goods and passengers coming in and going out of the limits of the local body. The Constitution of India has included the terminal tax on goods and passengers carried on by railway, sea or air in the Union List. But at the same time those local bodies which were
collecting this tax at the time of commencement of the Constitution have been allowed to do so in future also. Entry 89 of the Union List of subjects reads as follows:

"Terminal taxes on goods or passengers carried by railway, see or air." It will be seen that taxes on goods or passengers carried by road are not covered by this entry; such taxes will continue to be within the jurisdiction of the States. However, this entry does not debar the levy of tax on a pilgrim travelling by road.

Terminal tax is imposed not only on articles but also on the people coming in and going from the city either by sea, railway or by road. In the Madhya Bharat Region of Madhya Pradesh, this tax is being collected by the municipalities from all persons coming in and going out of the municipal area by road. Some of the cities of the former Gwalior State are also taxing people coming in and going out by railways. This is being done even now since the Government of India is honouring the agreement entered into between the State authorities of the then G.P. Railways in 1914. Such cities are Gwailor, Ujjain, Bhilsa, Guna, Bhind, Sheopur, Badnawar, Khachro, Mandsaur, Neemuch and Jawad. This tax for the above-mentioned municipalities is collected by the Railway authorities along with the fare and periodically paid to the municipality concerned, after making due deduction for administrative expenditures as agreed upon between the parties.

Most of the pilgrim centres of India levy terminal tax on passengers. It is popularly known as pilgrim tax. The main
centres of pilgrims where this tax is being collected are: Varanshi, Dakore in Gujrat, Hardwar, Ayodhya, Thaneshwar and Pandharpur. The Mount Abu municipality collects it under the name of visitor tax; Allahabad municipality collects it at the time of the Kumbha Mela. The Calcutta Improvement Trust (including Howrah) collects terminal tax on passengers coming in by sea.

Distinction between the Octroi and the Terminal Tax.

- The terminal tax and the octroi, though they seem to be similar in nature and scope, have fundamental differences between them. The main points of distinction are as follows:

1. Octroi is levied only on goods. But the terminal tax is levied on passengers as well.

2. Octroi is levied on those goods only which enter a specific area. The terminal tax is levied on the goods moving in and out of the city limits.

3. The most important difference is that the octroi is liable not on all goods entering the area, but on the goods entering "for the purpose of consumption, use or sale therein". There is no such condition in the levy of terminal tax.

4. The salient features of octroi, which differentiate it from terminal tax, are:
(a) the ale-initio exemption of goods which merely pass through the area, where its exit is immediate or after an interval, and

(b) refund of the octroi, if collected on such through goods.

History of Terminal Tax. - The terminal tax, as a source of revenue of municipalities in India, was for the first time recommended by the United Provinces Municipal Taxation Enquiry Committee of 1908. The committee found innumerable abuses in octroi duty and condemned the system.

The Committee observed that the terminal tax should be imposed on all imports at rates lower than the existing octroi rates. There should be neither refunds nor Advalorem assessment. The government of India, after consulting the various provincial governments, which allowed octroi collection the municipalities, sanctioned the levy of terminal tax on an experimental basis. The substitution in U.P. of direct taxation for octroi in the smaller towns in which conditions were suitable for the system of terminal tax, was permitted. The recommendation of the U.P. Committee to introduce terminal tax was a step to bring into practice the recommendations made by Sir Charles Travelyan as early as 1835. The Resolutions of Government of India of 1915 and 1917, approved the recommendations of U.P. Taxation Enquiry Committee. The Resolution of 6th July, 1917 strongly recommended the imposition of terminal tax in place of the octroi. Mantague-Chelmsford Reforms for the first time introduced the financial decentralization. The taxes which could be levied by the local authorities under Legislations passed by
the Provincial Legislatives were specified in Schedule 2 of the Schedule Tax Rules, item 8 related to terminal tax reads as follows:

"Terminal tax on goods carried into or exported from the local area, save where such tax is first imposed in an area in which octroi was not levied on or before the 6th July 1917.

The Indian Taxation Enquiry Committee, 1924-25 was critical of the imposition of terminal tax. Since then the process has gone on apace, but there was slackened enthusiasm for it and after 1929-30, the tendency to revert to octroi in a number of cases had its appearance. With the inauguration of provincial autonomy under the Government of India Act, 1935, the terminal tax could be levied and collected by the Centre. The Constitution of India carried on the position one step further by including the carriage of goods and passengers by air with Entry 89, of the Union List of taxes which reads as follows:

"Terminal taxes on goods and passengers carried by railway, sea or air."

Thus it is clear that the above List does not debar the States or local governments to impose terminal tax on goods and passengers carried by road. Article 277 of the Constitution, contains a saving clause, "that any taxes were being levied immediately before commencement of the Constitution, viz. January 26, 1950 by any municipality, district board, or other local authority may continue to be so levied, notwithstanding the
fact that those taxes are sanctioned in the Union List, until provision to the contrary is made by the Parliament by law."

The Local Finance Enquiry Committee, 1950, as regards the entry in the Union List about the levy of terminal tax on goods carried by rail, sea or air recommended “to consider the position and arrange to transfer this entry back again to the State List”.

Case for and against Terminal Tax: Various points have been cited in favour of the terminal tax. Various committees and commission appointed from time to time have also recommended for its levy in place of the octroi. The main arguments for its levy are as follows:

1. Terminal tax is light as compared with octroi duty and hence its burden is not felt.

2. It does not involve refunds and collection of the tax by municipal staff, hence its administration is not complicated.

3. The tax is generally collected through the agency of transport authorities, viz. railways, government roadways, etc. on goods, it is collected by the transporting authorities at the time of delivering the articles to the importer.

4. The rates of the tax are specific and not Advalorem and the classification of goods follows as closely as possible the classification of the railways. The cost of the collection is a
matter of agreement between the municipalities and the transporting authorities.

5. The administration of terminal tax is simple convenient and inexpensive. It gives relief to the merchants and to the general public and saves a lot of harassment to them.

6. The absence of provision for refunds makes the terminal tax a transit duty or a tax on through trade to the extent to which the burden of tax falls on non-residents.

Arguments against Terminal Tax. – On the basis of the above-mentioned arguments in favour of the imposition of terminal tax, it should not be concluded that it is free from abuses. It is criticized on the following grounds:

(a) According to Dr. Gyanchand, “Terminal tax will revive the evils not of town, but of transit duty and the gravity of the evils will be all the greater because of the allocation of the receipts to the local authorities and their administration by them.”

(b) Its imposition on export is unfair and impedes the progress of the commerce and trade and also from the point of view of rural class.

(c) Terminal tax is local tax but its incidence is widely defused. The determination of its rate by the local body without keeping in view its inseparable connection with railways and
general public leads to various consequences detrimental to trade and disturbs the railway administration.

(d) Finally it defies the principle of local taxation so far as its incidence is concerned, since it is also collected on through trades and hence non-residents are taxed.

Therefore, though the terminal tax is not free from abuses, they keeping in view the need for funds and less abusive administration, it is better to transfer terminal tax from Centre List to the Local List of taxes, and thus to implement the recommendation of Local Finance Enquiry Committee and Taxation Enquiry Commission.

3.23 Property Taxes:

The taxes on property in the modern system of local finance have a unique place throughout the world. It is the main source of income of urban local bodies in the United Kingdom, Australia, U.S.A., Canada and India. In India, the local rate, i.e. the property tax is imposed on the annual value of the occupied property and it provides the local bodies with an independent source of revenue. The taxes on property are levied in India by municipalities according to the Act under which they are constituted.

The property taxes in Indian municipalities may be divided into four broad categories:
(i) Tax on lands and buildings commonly known as 'House-tax' or tax on 'holdings'.

(ii) A tax imposed in return for services, rendered which form a part of property tax such as:

(a) water rate;

(b) lighting rate;

(c) scavenging, sanitary or sewage rate;

(d) drainage tax.

(iii) Betterment levy or special assessment.

(iv) Stamp duty on transfer of property.

Of the four main categories of the property taxes mentioned above, the first, i.e. House-tax is very important source of local income - the only largest source of income to them.

House Tax. - The house tax or tax on lands and buildings is an optional source of income with the exception of a few municipalities in India. It is divided into two parts, i.e. the general tax and the service tax. The former is the main tax and the latter are its auxiliaries and they are collectively called the property tax. Under the tax on lands and buildings, we include a tax on occupied lands and buildings, calculated on the rateable value of each and every hereditament. This tax is categorized
under general rate and is collected without any specific benefit
given or service rendered to the owner. Under the service taxes,
we include water rate, lighting tax, scavenging tax, drainage tax,
etc. these are usually collected along with and assessed on the
same basis as general rate. In some municipalities the house tax
and service taxes are combined and a consolidated tax is
collected. This practice is followed in Bombay and Calcutta. In
Delhi water rate is also collected along with the house tax
irrespective of the service rendered to every hereditament. In
some states, education tax is levied as one of the surcharges on
the property tax in order to supplement the finance available for
the primary education. A library tax is added to the house tax in
Madras and Andhra. Similarly a health tax is imposed in Mysore
and is collected with the house tax.

Following the English practice, the property tax in
India is assessed on real estates and not on personality or
movable property. The only difference between the English
practice and that of this country is that in England it is a charge
on the occupier and not on the owner and thus there it is an
indirect tax, while in India it is a charge on the owner and here it
comes in the category of a direct tax. The service taxes are not
compulsory charges on every and each estate, but are collected
only from those properties which are actually benefited by the
special services rendered by the local bodies. Hence these rates
are based on the principle of “Quid-pro-quo”. Only that part of
the property tax, which contributes to the general municipal
fund, is the tax on lands and buildings.
It is not only that urban immovable properties are subject to the taxation of the local bodies, but in some States in addition to the local rate, it is subject to the State taxation also. In Maharashtra, the immovable properties in Bombay are taxed by the State Government. In the Punjab in all the districts, the urban properties are taxed by the State Government. Similarly, recently the Government of Madhya Pradesh has decided to impose 7% urban property tax in every town having a population of more than 8000 and fetching an annual rent of Rs. 500 or more. About 89 towns in Madhya Pradesh are affected by this levy and State Government is supposed to get an yield of Rs. 15 lacs a year.

History of House Tax. - House tax or the tax on hands and buildings was for the first time levied during the British regime in India. Under the Charter 1726, the Justices of peace were appointed for the towns of Madras, Bombay and Calcutta. These Justices of Peace were authorized to levy tax on houses and lands to meet the cost of scavenging, police and maintenance of roads. A uniform system of fixing house tax at 5% of actual rental value was introduced for these three presidency towns. This system of assessment was borrowed from the English municipal system prevalent at that time. During Lord Ripon's period the house tax was the principal source of income of municipalities in Bombay, Madras, Calcutta, Rangoon, Madhya Pradesh and thereafter it became a principal source of all municipalities in India. After Independence, through legislations passed by State Legislative Assemblies, the house tax has been
permitted to all local bodies, urban and rural, and has been classed as an optional tax.

House Tax Administration. - The yield from any tax depends not only on its rate but also on its assessment and efficient administration. The administration of the house tax is a technical and complicated one and requires skilled and specially qualified administrators. On the part of the property tax administration it requires a specialized training and expert handling. It is really wearisome to value the properties for the purpose of local rate and what is more difficult, is its collection. Let us elucidate the twin subjects connected with the property tax administration.

Rating and valuation of Properties. - The valuation of the immovable properties which are subject to taxation as already noted, is a highly technical job and requires specialized training and ability of high order on the part of the assessors. We have followed the English system of property taxes and thus we tax occupied lands and buildings which are technically known as 'hereditaments'. The tax on lands and buildings is generally known as general rate other than service rates. Empty buildings are technically known as 'hereditaments'. The tax on lands and buildings is generally known as general rate other than service rates. Empty buildings are generally not taxed. There is a fundamental difference between the liability of payment of general local rate in India and England. In India, it is a tax on the owner, while in England it is a tax on the occupier, which means that he must be beneficial and have legal possession. There are
various methods of the valuation of properties of different kind, when all properties within the jurisdiction of local body liable to be rated are classified according to the use to which they are put. For each class a different method is followed to find out rateable value of the properties. Immovable properties are generally divisible into the following categories:

(i) Dwelling houses and industrial premises.

(ii) Cinemas, factories, schools, etc.

(iii) Public utility undertakings like markets, parks, railway platforms, public transport, etc.

For different types of buildings mentioned above different methods of valuation of the properties are used since it is not possible to apply one method to all the categories.

Assessment of Dwelling Houses or Rental Value Methods. - The rateable value of the dwelling houses is found on the basis of annual rental value of the hereditaments. To arrive at the annual rental value, three values of a hereditament are found, i.e. the gross rental value, net annual rateable value, and the rateable value. The gross rental value is one “which is arrived at from the rent at which the premises might reasonably be expected to let if the landlords were responsible for repairing and insuring the property”. The phrase “reasonably expected to let” as referred to by Drummond means “actual rent which can be offered to a domestic or dwelling house in a locality assuming a free market”. Only those dwelling houses which are occupied
are assessed. Vacant and other dwelling houses exempted under the act are left out. The valuer takes many things into consideration while reaching at gross rental value."

From the gross value certain deductions are made from the cost of repairs and insurance premium and whatever remains after making deductions is the net annual rental value of the hereditament. The annual rental value and the annual rateable is one and the same. The valuer has to face a number of problems while calculating the rental value of the property since he has to start with a hypothetical tenant and a hypothetical landlord.

Rental value and capital value. - There can be another method of locating the rateable value of the holding other than annual rental value. The one which is suggested is to take the capital value of the property. There is a lot of controversy over the base of assessment and various arguments have been cited for and against for each base. Those who advocate the rental value generally argue that -

1. It is equitable, because the general rate is collected according to the income yielding capacity, i.e. the poor are taxed less in comparison to the rich who own big buildings and thus it is based on the principle of 'Ability to pay'.

2. The rental value system is easily administrable.

3. People understand this system easily.
4. Under this method, location of building, ventilation, neighbours, roads, environment, etc. are taken into consideration since all these directly affect the rent of the hereditament, even though the capital cost of other buildings may be equal but mat differ in above facilities.

5. And finally, in absence of any better basis, the rental value is more commonly followed.

Another set of opinion which asserts the adoption of Capital Value of the property for reteable purposes argues that –

1. It will facilitate the assessment of those properties which are not let out, e.g. public buildings, markets, advertising stations, public utility undertakings, etc., and thus the element of hypothesis will be done away with.

2. This system is more objective and personal equation can almost be eliminated, which is involved in determination of rental value.

3. The rental value system is based on ‘expected reasonable rent’ which itself is full of vagueness and local bodies are deprived of the share of the high rents. It is often seen that if one tent vacates the house the owner charges higher rent from the new occupants than what he was actually getting from the former tenant and as such the local body is deprived of the share of increased rent.
4. The calculation of capital value is comparatively much easier to the rental value of the holdings.

5. Dr. Gyanchand while recommending the adoption of capital value system writes:

"The basis of assessment of the house tax be changed from the annual value of lands and buildings to their capital value. This will be a radical change but also a simple one. The purpose of valuation will be to ascertain the capital value of property and not its income; and as its capital value is derived from the income that it yields or is capitalized income, the change will not be a change of substance but of form and yet will have its advantages which make its introduction highly desirable."²⁷

6. It is also argued that this system is successfully working in America, Canada, Australia, New Southwales, and in Queens-land and it should also be adopted in India.

Exemptions and Remissions of Property Tax. - Most of the municipalities under the Acts constituting them allow the exemption of following properties from the levy of general rate:

1. Places set apart for public worship such as temples, mosques, churches, etc.

2. Dharmshalas for the occupation of which no rents are charged.

3. Place used for charitable purposes.
4. Burning and burial grounds.

5. School buildings (in some States only).


7. State and Central Government buildings (only in some States).

8. Agricultural lands.

3.24 Structural or Contractor’s Test Method:

Those hereditaments which are generally not let out and are not meant for dwelling purposes and are built for specific purposes cannot be assessed on the basis of rental value. In such cases the structural method is adopted to find the rent demanded or offered. Under this method the capital value of the building is found out and a percentage representing the rate of interest on the capital value is calculated and the figures so obtained are taken as rental value for the purposes of rateable value of the property. This method is suitably applied to the properties like cinema halls, schools, colleges, hospitals, clubs, factories, etc.

Accounts Method. – The third method of assessing the properties for taxing purposes is on accounts basis. The properties of public utility undertakings like railway platforms, bus stands, parks, etc. are valued under this basis. It is well understood that it is not possible to ascertain the rent of such buildings. This method is somewhat complicated. Under this
method not only the cost of the building but also the investment of the business is taken into consideration while arriving at the rateable value of the property. And for this the basis is the accounts of these business. From the accounts book the residual amounts is ascertained after making allowances for

(1) reasonable profit of the trade,

(2) interest on capital invested,

(3) depreciation charges for the capital. Out of this residual amount a further allowance is made for necessary expenses for maintaining, renewing and insuring the buildings. Thus, whatever remains after deducting the above mentioned amount is taken as rent of the building which also includes the rent of the premise. The general rate is then calculated on the same basis, and thus the annual rental value is known. There are certain undertakings of public utility which serve more than one locality, e.g. water supply, and hence under such circumstances, a necessary apportionment of the net annual value is done so that the tax is diffused.

(4) Accommodation unit basis. - The fourth but not a very common method of assessing the properties is in accordance with the accommodation available in hereditaments, e.g. as per seat in the school, per bed in the hospital, per seat in the cinema. But for such type of buildings the common method followed is the contractor's test method.
Assessment of property Taxes in India. - Of the four above-mentioned methods of valuation of local properties for taxation purposes, the rental value system is very common. In most of the Indian municipalities, the State and Central Government buildings are generally exempted from property tax. Thus, the official buildings like colleges, post and telegraphs offices, railway stations and bus stations are left out altogether. Only residential buildings are taxed. Therefore, other methods of assessing the hereditaments are of no use. It is well known that the financial position of Indian municipalities is weak. Hence, these are unable to employ well qualified and expert personnel for valuing the landed properties of local area. They cannot afford to pay them high salary. As such proper assessment regularly and punctually is not done. It is worth noting that the valuation of local properties for house tax is not done and revised for years, because they do not have adequate and qualified machinery to do the job. Even the Municipal Corporations in India find themselves unable to get assessed the local properties regularly. There is no assessment of hereditaments for many years and the cases are not uncommon where it took before independence.

Not to speak of delay in assessment but whatever and whenever the valuation is done that is also not proper and correct. And, thus, there is a great loss of revenue of the local body. It is observed that in Punjab, there is a great deal of disparity between the assessments made by the Punjab taxation authorities and the under municipal committees in respect of the annual rental values of the properties for the purpose of
property tax and house tax. This is causing a loss of revenue to the municipal committees. If the municipal committees in the Punjab adopt the assessment made by the Punjab taxation authorities, the revenues of the municipal bodies from this source will increase appreciably. In those states, where immovable properties are subject to state government taxation, the income from house tax can be increased by following the rental value method assessed by the property tax department of the State Government. In the big municipalities and the Municipal Corporations, the valuation though irregular and with long gaps is done under the supervision and guidance of experts and qualified personnel. But in the small municipalities, which cannot afford to get the services of experts, the work is done by a committee appointed by the council, consisting of members mostly from the council itself. It may be recalled here that the calculation of the rental value of a property is a highly skilled job and requires on the part of the assessor a specialized training and experience of a high order. How can the members of the assessment committee be expected to assess the properties of the local people without fear and favour, when continuation to hold the chair is on the mercy of the popular vote? Besides, being well qualified, an assessor must also be completely independent from one whose property he assesses and it can never be possible.

Mr. Goode of Bengal said in evidence before the Taxation Enquiry Committee, 1924-25: No reform in local administration is more urgently necessary than to secure fearless, impartial and uniform assessment and it may be stated
with absolute definiteness,” added Mr. Goode, “should be done by persons who are independent of the suffrage of the persons whom they assess.”

Similar views were also expressed by Mr. Boag of Madras before the committee: “In my experience, I have found that independence of officers responsible for assessment from any control on the part of the electorate is absolutely essential.”

The independence of the members of the committee is neither feasible not possible. Thus, the cheap politics comes in the way of progress of the town. Now in view of the practical difficulties and financial weakness of the local bodies it would be desirable if the State Governments come forward to help the local bodies.

Thus is order to achieve the objects, the State Government should create a Valuation Department.

Dr. Gyanchand in his book entitled ‘Local Finance in India’ has strongly advocated the creation of such a Valuation Department. The Local Finance Enquiry Committee also held the same view and recommended creation of a Central Valuation Organization. “A Valuation Department should be brought into being for all local bodies within the State.” The duty of the Valuation Department should be to appraise the capital value of real estate of all urban areas. This will provide periodically revaluation of the properties. The cost of maintaining it would have to be apportioned among the municipalities.

The assessment of the property by an expert agency will add to the resources of the municipalities by removing the
cause of an unequal and under assessments, which are very common now, and will relieve the assessment committee of the odium of a task which is as thankless as it is important. The creation of State Valuation Department is a measure of financial reform which will help and not hinder the growth of the municipalities in India.

Tax Collection. - Another aspect of the property tax administration is its collection. Not only the rate of the tax and its assessment is responsible for higher yield of the property tax but also its proper collection. A low rate of tax can give a good yield if properly collected with least evasion of the tax. But the things are contrary; there is no proper collection of the property taxes and there is a sufficient evasion of the tax. Different methods are followed in India for the collection of the property taxes. Of these, door to door collection and bill system is very common. Under the former, the tax collectors move from house to house and realize the tax from the owner of the house and land from his place and issue the receipts on the spot. But this system of tax collection is highly deplorable. The effectiveness of the method depends on the character of the tax collector, which is always doubtful under the existing crisis of character in the country. The dishonest tax collectors do not discharge their duties properly. Corruption has increased among the executive machinery and has become a chronic disease from which the local bodies in India suffer. This has resulted in a huge accumulation of arrears of house tax in all municipalities of India. It has further been encouraged by the executive heads, by not utilizing their powers to realize the tax from the defaulters
the main cause of which is an undue interference and influence of the councillors in day-to-day administration of the municipality. Under this system the cases of misappropriation and fraudulent practices generally come to light and some cases of duplication of receipt books are also reported. The tax is realized from the owner but not deposited in the municipal treasury and mis-appropriated by the tax collectors and receipts are issued from the duplicate receipt books. Moreover, under this system, the local body needs a battalion of tax collectors which accelerate the collection cost and make the tax unproductive, give ample opportunities to the employees to grease their palms and demoralize the public.

Another method of tax collection which is followed in big municipalities and Municipal Corporations is the 'bill system'. Under this system the bill for house tax giving, sufficient time to the assessor, is issued either personally or by post, like service rates (water and electricity). The assessee deposits the amount of tax into the municipal treasury personally within the due date. For collection of the tax some staff is deputed and a counter is provided. Under this system, there is little possibility of non-payment and misappropriation or the interference of the councillors. To make the collection most effective and to reduce the magnitude of tax arrears a system of penalty may be introduced like the water rate and lighting charges. If the tax is not paid within the prescribed time, a penalty to the extent of 6.5% of the tax be imposed. This amount of penalty should be mentioned in the bill. Various committees appointed in various States have recommended this measure.
There is a general complaint throughout the country about the collection of house tax and there are heavy arrears of municipal taxes recoverable from the people. This is due to lack of proper control over tax collectors. This can be fully recovered if the local authorities proceed against habitual defaulters and punish delinquent officials.

3.25 Special Assessment or Betterment Levy:

Another category of the property tax yielding income to the urban local bodies in India is the collection of betterment levy. Though this levy is permitted to all municipalities in the country yet the State taking advantage of it are a few. It is imposed in India in the States of Maharashtra (Bombay Corporation only), Madras, Mysore (Improvement trusts only), Andhra, U.P. (Optional tax), and by the Delhi Corporation.

Definition. - Special assessment or betterment levy is also called the unearned increment value tax. According to Prof. Saligman a special assessment is "a compulsory contribution levied in proportion to the special benefits derived to defray the costs of a special improvement to property undertaken in the public interest". According to Professor Taylor "Special assessment are the charges imposed upon the property benefited by such improvement, the amount of the charge being determined by pro rata cost or pro rata benefit".

It is evident from the above-mentioned definitions of distinguished economists that the special assessment is levied on the principle of 'quid-pro-quo'. This levy is very common in
American local bodies and there it is playing an important role in the local development. Betterment levy is imposed to defray the cost of specific local improvements, such as construction of streets and sewers, etc, giving special benefit to particular property owners in addition to their general community benefits. The underlying principle of this levy is that when any improvement is initiated by the municipality, thereby increasing the value of property in a particular locality or area, the cost of the improvement should be borne by the property owners according to the extent of benefit. Besides the physical benefit to the property owners by the local improvements, what justifies the levy even more is the increments in the value of the property (rental and capital both) which take place owing to the specific local improvements.

The levy of special, assessment in Indian municipalities is limited in two ways - the first is legal and the second practical. Legally, is limited to big schemes, and does not extend to more restricted improvements such as building of an over-bridge or providing a park. In practice, the betterment levy is limited to the cost incurred on the scheme, though the relevant legal provision purports to cover all increase in value which results from the execution of the scheme.

Practical Difficulties of the Levy. – The administration of the levy is not so simple as it seems, and neither does it become operative simply by a provision in the Acts. There are various drawbacks and practical impediments in its execution. The first difficulty is the combination of general and specific
benefit due to the local improvements giving a right to levy it. The cost of the improvements giving a right to levy it. The cost of the improvement is much more than the benefit derived by the proper it is very difficult to divide separately, the 'general, benefit the cost of which is to be met' out of the general funds of the local body and the 'specific' benefit the cost of which is to be defrayed through the special levy on the properties benefited. In such local improvements, the voice of the property owners is to be given due place and should be consulted before the scheme is undertaken and implemented. Secondly, another set of problems is faced when the question of assessment against individual property arises. How much cost of the improvement is to be assessed against the benefited properties? It is either the whole cost or a portion of actual construction cost, and cost of land and supervision charges. The principle is that no property owner should be asked to contribute an amount in excess the value added to his property by the improvement. This evidently may give rise to difficult problems. Thirdly, the betterment levy has become almost inoperative, so far as smaller municipalities are concerned, on account of the cost, litigation and procedural complexities involved. Fourthly and finally, there is the problem of spreading the cost of the improvements over a number of years. But there are various practical difficulties in determining the rate and amount of the levy and its spreading over for years.

A case for levy of assessment in India. - It is a well known fact that the local bodies in India are in financial straits and need funds to undertake development works. In view of the National Plan demands and necessity of funds for its
implementation there is hardly any scope for augmentation of
taxes and grants to the local bodies under such circumstances,
the special assessment should be an integral part of local
development finance. There will be no objection on the part of
the public to pay it because they are direct party to the benefits
extended by the local body. It will further teach them to share
financial liabilities if they want better facilities. Moreover, there
will be no objection on the part of the payers because they will be
reaping the advantages of enhanced value of their properties due
to local improvement. The Taxation Enquiry Committee, 1953
has also recommended the levy by Indian municipalities. "We
would stress the need for effective aid from the machinery of the
State for putting through improvement schemes as well as for
formulating and imposing betterment levies in connection with
such schemes." 32

Thus, it should be made obligatory for every
municipality to make use of special assessment for every local
improvement.

3.26 Taxes on Transfer of Immovable Property:

The tax on transfer of immovable properties is levied
as a duty by the local bodies in addition to the usual stamp duty
at the time of actual transfer of immovable property. This is a
direct tax on the owner of the landed property but is only
collected when its actual transfer takes place. In Indian States
Municipal Acts, under which the municipalities are constituted if
permitted, to collect this levy, make such a provision. At present,
it is actually collected by municipalities in the States of Madras,
Andhra Pradesh, in a few municipalities of Mysore, Madhya Pradesh (M.B. Region) and in the rural local bodies, such as the Panchayats, District Boards, etc., in the States of Madras, Andhra Pradesh PEPSU Region of the Punjab. It is also being collected by the Municipal Corporations of Madras, Bangalore, Calcutta, and the Municipal Corporations in the 'KABAL' towns of U.P. (Kanpur, Agra, Banaras, Allahabad and Lucknow).

The transfer of immovable property for the sake of collecting duty does not only mean the transfer when it is sold but also includes the exchange gift, mortgage with passion, and lease in perpetuity of immovable property. It means that whenever the registration of agreement of any kind of transfer of immovable property is subject to the levy of stamp duty.

Collection of the Duty. - The administration of the stamp duty and its collection by the local body on the transfer of immovable property is simple and does not require any specific staff to administer it. This duty is collected by the Registrar of the State Government when the agreement of the transfer of immovable properties is brought for registration, the Registrar sees that deeds are written on stamp paper of the requisite value, considering the stamp duty due to the State Government and the additional duty due to the local body. A special account is kept for stamp duty paid on account of local body and the amount is credited quarterly to the local body funds. A certain percentage of the collected amount is deducted out of the total proceeds for the collection charges by the State Government. Its
administration is like that of the terminal tax collected by the Railway authorities on behalf of the local body.

The rate of the stamp duty varies from State to State. In Madras and Andhra, the municipalities levy 5% and the District Boards and the Village Panchayats 4% on the value of the property transferred. Generally in every Municipal Act minimum rates are given which vary from 1% to 5% of the transferred value.

The tax on transfer of immovable properties as a property tax is found less common with the Indian municipalities. Only in a few States a small number of municipalities collect this levy. Even the big Municipal Corporations like Delhi and Bombay do not dare to exploit this source of revenue. In view of the paucity of funds with the local bodies and enormous essential duties to perform, if this source is tapped, it will add to their finance considerably. The Taxation Equity Commission, 1953 has suggested this source to be tapped by the Indian Local Bodies. For local bodies generally, and for urban bodies in particular, this is very suitable item of taxation. The efforts of different sections of the local community, besides the amenities provided and the programmes pursued by the local authorities, are often in no small measure responsible for the increase in the value of sites and buildings in urban areas; and a duty on the transfer of such properties is an appropriate way of securing a share of the increase to local bodies we recommend the levy of a duty of this kind by all municipalities and corporations. 33
Similarly, 25 years ago the Local Self Government Committee, Bombay, 1939, recommended that “Steps should be taken to add to percentage on stamp duty (charged on transfer of property) for the benefit of local bodies within whose are the property transferred are situated.”

Thus, if the transferred properties are taxed by the Indian local bodies, it will give them a good return. It is justifiable, since the values of the properties are naturally increased by the services of the local body and hence they are morally and ethically entitled to a share of such increase when actually converted into cash by the owner.

3.27 Professional Taxes:

Professional taxes in India are levied by the municipalities under various names in different States, as, for example, tax on trades, tax on profession, tax on arts and tax on callings. It is permitted in every Indian State except in Madhya Pradesh, Assam and Andhra, where it is levied by the State Government. An adequate grant-in-aid is given in these States to the municipalities in lieu of the professional tax.

A tax on professions and trades has been familiar in Indian municipalities from the very early times. It was levied during the British suzerainty between the years 1867 and 1886 under various Licence Acts, and for a time it took the place of income tax. Before these Acts were passed the professional tax was a part of the general revenues of Indian Government, but it has been since used principally by local bodies, except in few
states where it is collected by the State Governments. The professional tax impinges on the income tax and hence constitutional limitations have been placed on the maximum amount of the tax. Under the Mantagu-Chelmsford Reforms, a tax on trades, professions and callings was included in the scheduled taxes to be levied by the provincial governments and to be assigned to the local bodies. Thereupon, this tax was included in the list of permissible taxes in the various provincial enactments, governing the constitution of local bodies, passed after the coming into force of the Government of India Act, 1919. Under the Government of India Act, 1935 it was placed in the provincial list and because this tax impinged on income tax, the Act of 1935, was amended by Parliament and a new Section 142-A was inserted therein, which put a statutory limit on the amount of the tax to the maximum of Rs. 50/-.

After the enactment of the new Constitution of Independent India and its enforcement since 26th January 1950, the limit of maximum of professional tax has been raised from Rs. 50 to 250. It is undoubtedly a welcome change.

Professional taxes can be divided into two categories according to their system of collection and assessment:

(i) Personal taxes, and

(ii) Taxes on trades and callings.

(i) Personal Taxes. - A tax on person is known by different names in various States such as Professional tax, Haisiyat tax.
The Persian word Haisiyat means the financial status, etc. persons under this tax are taxed taking into consideration their circumstances, property, social status, business and financial position. But as mentioned earlier its maximum limit as laid down in our constitution is Rs. 250/- per annum. Since it impinges upon the income tax of the Central Government, there is enough justification for such a limit. Under this tax inhabitants are assessed according to their circumstances and property. Though it is very difficult to find out the Haisiyat of the individuals, certain common factors determining the Haisiyat are taken into consideration such as their income, social position, profession or trade and their personal property (movable and immovable). And thus, the economic status of the inhabitants is estimated. Under the personal tax a local body not only taxes the income of individuals but also takes into consideration while determining the amount of tax their personal properties, social and economic status, and thus they are summoned to contribute to the local fund according to their paying capacity. This tax justifies the 'Canon of Equity' in those states where it is collected under the name of 'tax on circumstances and property' and as the name implies is a combination of profession and property tax and is a composite tax.

Assessment. – In some of the States, the basis of levy of the personal tax is the income of the assessee, and there it is more or less of the nature of local income-tax. The annual income of the assessee is ascertained and the tax is levied according to a determined scale of rates, which are graded in ascending order at certain percentages of the tax payer’s income.
The practice of assessment differs in different States. In some States, the assesses are graded e.g. income-tax payers and others. In Madhya Pradesh, where professional tax is collected by the State Government, the system of gradation of assesses exists and only income-tax payers are taxed, while the non-income tax assesses are left out. The minimum amount of the tax here is Rs. 29/- per annum.

There is a lot of criticism of the personal tax levied by the local bodies in India, since it impinges on income tax. But it can be justified on the ground that the local body serves the inhabitants from the cradle to the grave and thus has every right to demand from them to contribute to the local fund according to their ability to pay. In view of increasing responsibilities and weak financial position, it is desirable for the local bodies to tap up every source of income, secondly, it is argued against the levy that while determining the income of the assessee, it is not possible to separate the local and foreign income, and if the whole income is taken then it will defy the canon of 'localized income'. But it can be justified on the ground that when one lives in the jurisdiction of local body and makes use of the various amenities provided by it then he should be treated as a local inhabitant irrespective of his place of profession and trade. Now a difficulty arises about assessing the income of the taxpayer, since it is a technical job and requires a specialized and skilled personnel to do it. This personnel, the local bodies cannot afford on account of their financial difficulties. But this can be made easy by adopting the simple system.
(ii) Taxes on Trades and Callings. - Another category falling under the head of professional taxes is the tax collected from various trades and professions. Under this category the entire income of the inhabitants is not taxed but only the various trades, professions, callings and arts taxed. There is no consideration of the social and financial status of the individual. Neither the property owned is reckoned in it.

Moreover, not all trades and professions are taxed but only those 'trade and callings, carried on within the local limits and deriving special advantage from, or imposing special burden on local services, are subject to local taxation. In almost all the urban local bodies in India this tax is collected. Tax on professions and trades serves two purposes, viz. (i) it yields good income to the local body, and (ii) it regulates or prevents certain dangerous and offensive trades or occupations.

Basis of levy. – For the purpose of taxing various trades coming under the purview of local act, the trades and professions are divided into a number of classes. Local bodies levy small taxes in the forms of licence fees on specific trades and callings which are subject to the control of the local body. To name the various trades, professions and callings which are generally required to take licences to carry on them under the
acts are: hotel industry, Halwai (confectioners) restaurants, betel-leafshops, flour mills, potmakers, chemist, timber merchants, nurses, dangerous trades, animals except those kept for domestic purposes other than for milk selling, inns, firewood shops and fire works, etc. the usual method of assessment is to divide the trades into a number of classes, assuming that the members of a particular class have approximately the same average income and require them to take out licences for carting on their trades or professions on the payment of licence fee fixed with reference to the assumed average income of the class to which they have been assigned. The rates of the licence fees vary from State to State and in a State from municipality to municipality. It is fixed on considering the local circumstances, and paying capacity of the trades, etc. the usual procedure for levying the licence fee is to prepare rules and bye-laws by the local body concerned.

3.28 Wheel and Animal Taxes:

Wheel tax is another direct tax and an important source of income of local bodies in India. It yields a considerable income to all categories of local bodies in every State. The tax on vehicles is a special feature, particularly of municipal taxation in India and is very common in each municipality in every state. The wheel tax is levied in the form of a fee commonly known as licence fee. All vehicles except those driven by power are subject to the local taxation. Vehicles used for domestic and religious purposes are exempted from taking licence from the local body. All those vehicles, boats and animals which are used for riding,
driving draught or burden and used within the limits of the municipality are taxed. All the acts of the local governments of all states permit the imposition of this tax on vehicles and animals used for hire or for riding and animals kept either for entertainment or for business purposes. Under the vehicles, only those carts and carriages are taxed which are drawn either by man or by animals, such as horse carriages (tanga), bullock-carts, cycle riksha, four-wheeled Thelas (driven by hand) and in some of the states bicycles are also taxed. The animals which are liable to be taxed are all milch animals other than those kept for domestic purposes as dogs, donkeys, etc. in 1962, there was an interesting scene in front of the office of Delhi Municipal Corporation, when thousands of donkeys marched through the thoroughfares of the metropolitan city of India and demonstrated against the increased burden of taxation on them. Thus, it can be said that all those vehicles and animals which make use of the municipal roads are taxed. But it is not always possible to tax all vehicles which make use of municipal roads, but only those vehicles which ply on municipal roads for business purposes and are kept within the local area. Through vehicles though they make use of municipal roads are not taxed. Local bodies in India are not allowed to tax power vehicles except in Bombay and Andhra Pradesh, where municipal tax on vehicles extends to motor vehicles as well, and is, in addition to the tax, levied by the State Government.

In a few States a tax is collected from boats (Bombay, U.P., Mysore and Saurashtra Region of Gujrat). In Assam, West Bengal, Bihar, Madhya Pradesh and Orissa charges are liable to
be paid on boats mooring within the municipal limits or at ghats and landing places provided by the municipality. In Bihar the village panchayats levy a tax on boats.

Tax Assessment. - The fixation of wheel tax and animal tax is quite simple. It is more or less like a fee collected in the form of licence fees. Vehicles are classified into different categories and a licence fee is fixed by the municipality concerned. The owner of the animals and vehicles has to obtain licence from the municipality. Similarly the owners of animals have to obtain licence for keeping animals within the jurisdiction of the municipality. In some of the municipalities the system of registration of animals exists. While making any transaction of useful animals there is a need to obtain a registration certificate from the municipality. Though licence fees are classed as taxes, yet they have also an element of cost in them, owing to their being regarded as charges for the use of public roads.

Distinction between fee and a tax. - Very often we confuse between a tax and a fee, hence it will be most fitting to understand here the distinction.

Tax and its elements have already been explained in the preceding pages of this book. Let us know now what is a fee. Prof. Saligman has defined fees as "payment to defray the cost of each recurring service undertaken by the government, primarily in the public interests but conferring a measurable special advantage on the fee payer." According to the above definition sometimes an element of quid-pro-quo is found in a fee. Sometimes a fee is levied to discourage and control the
consumption of commodities produced and services rendered by the State.

Thus a licence fee is levied for regulatory purposes and for recouping municipal expenses incurred on such regulation. The court would be entitled to interfere in case of licence fees if they are harsh and unreasonable. The plea of unreasonableness would, however, be barred in the cases of taxes.

3.29 Income from Other Taxes:

Besides the various taxes prevailing in Indian municipalities, there are other taxes which yield relatively small income. They are discussed below.

Entertainment and Theatre Tax:

Entertainment tax is an indirect tax. It is primarily of local nature and occupies an important position in local budgets where it is imposed. But the position differs from State to State in respect of its imposition. In modern India, it is a very productive tax. The entertainments and their places invariably are taxed in every town and city in India but the taxing authorities differ. In some States, it is the State Government which reaps the harvest of this tax and in some States local bodies are allowed to enjoy its fruits. In India only two States, i.e. Andhra Pradesh and Kerala have allowed their municipalities and corporations to collect entertainment and theatre tax. While in all other States it is a tax of State Government. The
municipalities in the Madhya Bharat Region of Madhya Pradesh and the Marathwada Region of Maharashtra were levying the entertainment tax and were allowed to retain its proceeds. In Maharashtra, The Bombay Entertainment Duties (Amendment) Act, 1958 was made applicable to Marathwada and the municipal tax on entertainment was discontinued to avoid double taxation, and a compensation in lieu of entertainment tax as a grant, equal to loss sustained by them, was sanctioned. Similarly, on 1st November 1957, the Government of Madhya Pradesh took over entertainment tax from municipalities of Madhya Bharat Region and agreed to transfer them 60% of the tax proceeds.

The theatre tax is a direct tax on the owners though allowed in every State to be imposed by the municipalities yet actually is being collected by the municipalities in Maharashtra and by the Municipal Corporations of Bombay, Poona, Madras, Delhi and of KAVAL towns of U.P. The New Delhi Municipal Committee also collects it. Theatre tax is not very important from the point of view of its yield and is relatively less significant than the entertainment tax.

Entertainment tax, as already pointed out, is an indirect tax and is levied on admissions to places of entertainments, such as cinema houses, play grounds, place of dramatic performance, etc. on the together hand a theater or show tax is levied at a flat rate for each show or performance. Both these taxes are leviable under “Item 62-Taxes on business
including taxes on entertainments, amusements, etc.” in the State List.

The incidence of entertainment tax on admissions to the places of entertainment falls on those who enjoy the performance. And in incidence of theatre tax primarily falls on the owner or the organizers of the show. The entertainment tax is levied on individual visitor of the place and is collected along with the owner’s charges. Its administration is this, simple and convenient and yield is productive. The rates of theatre tax are specific and flat and fixed by the municipalities considering the nature of the show and ability of the proprietor to pay.

Entertainment Tax and the Local Bodies. – As a matter of fact the levy of entertainment tax is a logical and legitimate right of local bodies, as they have to undertake the work of sanitation and have to provide other amenities at or around the theatres and other public places of amusement. It does not seem reasonable to deprive them of productive sources of income which logically and legally belong to them and to put heavy responsibilities of essential nature of human existence on them free of charge. This has made their existence merely ridiculous. The example of this is the Delhi Municipal Corporation which is threatened by financial collapse. Therefore it should be welcome, if the state governments gave it a due consideration and transferred this tax to the local bodies.
Toll Tax:

Toll Tax, which was once an important source of local bodies in India, is breathing its last in the local taxation system. It has been abandoned in almost all the progressive countries of the world and in India it is also gradually disappearing. It is an indirect tax. It is levied on carriages and vehicles for the use of road and bridges over rivers. The main purpose of the tolls is to defray the cost of construction and maintenance of roads and bridges out of their proceeds. On bridges, where tolls are still collected they are leased out to contractors at a rate fixed by the local body, and thus the local body is saved from the botheration of its collection and maintenance of accounts.

In view of various inconveniences to the traffic and especially their impediment to the fast moving traffic, the public opinion is growing against tolls. Moreover, almost all the municipalities in India are imposing wheel and animal tax and therefore to avoid double taxation its abolition has become imperative. Even then tolls are now levied by the municipal boards in U.P. Himachal Pradesh, Pondicherry, Tripura, Delhi Cantonment Board and Poona. Its collection can be justified by those local bodies, on incoming traffic where terminal taxes are not imposed. In Mysore, the State Government levies tolls on all motor vehicle at frontier toll gates and at bridge toll gates.

The taxation Enquiry Commission, 1953 has recommended its collection from through traffic passing from the newly constructed bridges:
"With one reservation, we recommend the abolition of tolls wherever that has not been affected. The exception relates to new bridges costing over, say, Rs. 5 Lakhs. In respect of these tolls may be permitted for a period, but in no case after the cost of construction has been recouped."

**Tax on Advertisements:**

There is mention in every municipal act about the tax on advertisements, other than advertisements published in newspapers, local bodies, under Entry No. 55 of State List are permitted to collect it. But a few municipalities impose this tax since it is not very productive but on the contrary is uneconomical. Under advertisement tax, advertisements published in newspapers and cinema slides are not covered. Hoardings, posters, skysigns, etc. are the types of advertisements on which taxes or fees can be imposed by local bodies. Levies on advertisement are found in the Municipal Corporations at Patna, Madras, Delhi, Bombay and Calcutta. Advertisement tax can only be imposed where municipal land is used for display. In Madras Corporation, it is tax on advertisements "erected, exhibited, fixed, retained or displayed to public view in any place, whether public or private." Generally, advertisements through name boards are exempted. Fees for advertisements were first levied by Calcutta Municipal Corporation in 1951, and later on the rates of fees were
liberalized. Under the Bombay Municipal Corporation Act, permit fees are charged for display of skysings. Larger municipalities by following suit can increase their revenues with the imposition of this tax.
REFERENCES

1. Public Finance, its Theory and Working in India : Dr. R. N. Bhargava.

2. Pigou : quoted by Dr. R. N. Bhargava in his Public Finance.


4. Local Finance in India – Dr. Gyan Chand, P. 221.


6. Development from below – Mrs. U. Hicks, P. 235.


10. Quoted by Illustrated Weekly of India, April 5, 1964, P. 61.

11. Development from below – Mrs. U. Hicks, P. 236.


16. Quoted by Saxena and Mathur in Public Economics.

17. Ibid, P. 171.


19. Ibid, P. 43.

20. Public Finance – Mrs. U. Hicks, P. 237.


22. Foundation of Local Self Govt. in India, Burma and Pakistan – Dr. Hugh Tinker, P. 213.


24. Local Finance Enquiry Committee, P. 149

25. Local Finance in India, Dr. Gyanchand, P. 71.


27. Ibid, P. 102-03.

28. Quoted by Dr. Gyanchand in Local Finance in India, P.95 & 96.


31. The Economics of Public Finance, Taylor, P. 259.

32. Taxation Enquiry Committee Report, P. 394.

33. Ibid, P. 395 & 396.

34. Reports of the Local Self Government Committee, Bombay 1939, para 52, as quoted by Dr. Gyanchand in his book Local Finance in India, P. 137.